

2043944864.A

SECTION
OPERATIONS
REPORT

**CS PHILIP
MORRIS**

AUGUST
1987

2043944864

MARKETING CONDITIONS

Cambridge

Cambridge full flavor introduction is coming to a close and estimated distribution is 75-80%. (Actual SPACE date unavailable as not all distribution reporting was captured.) During the Cambridge FF Intro, we also improved distribution of Cambridge Lights which is up to 63.7% from a low of 63.1%.

Virginia Slims Ultra Lights

To date, 70.8% of chain accounts have accepted V.S. Ultra Lights, covering 82% of the chain stores. Significant chain accounts still pending include:

Christy's Markets	87 stores
Star Market	45 stores
Purity Supreme	43 stores

Philip Morris Sales

Year to date unit volume is +1.1% through 7/31/87, which is quite positive considering the potential payback from load-ins associated with our recent price increase.

Brand packings showing significant growth include:

Marlboro Lights 85's	+10.4
Marlboro Lights 100's	+ 7.7
Total Marlboro	+ 4.0
Merit Box	+11.8
Total Merit Ultra Lights	+12.7
Total Cambridge	+38.8

P.M.'s Market Share in Section 11 is up to 42.4% using 12 mo. moving average. It is now safe to say that P.M. share is higher than any two companies combined in the Section.

FVBPine State

Fifty cases of "Best Buy" has been couponed at \$1.50 off per carton and shipped to retail w/o 8/24. The \$1.50 off coupon gives "Best Buy" a 50¢ advantage over other Generics for a period of time. Pine State is funding 50¢ of the \$1.50; Cor Mark is finding the dollar.

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MARKETING CONDITIONS (Continued)

Industry Sales

Through the first six months of 1987 industry sales are off -5.4%.

Price Value offerings are showing some growth with a share increase of +.27.

Tax & Regulatory Developments

No significant activity to report.

COMPETITIVE ACTIVITY

American Tobacco Company

Pall Mall filter being supported by a \$2.00 carton coupon placed at factory and shipped to wholesale. Sales force is working Pall Mall Filter BlG1F in conjunction with carton program.

Lucky Strike still being supported by a \$2.00 off coupon offered by Sales Reps.

American representatives indicate that wholesale support for Malibu - 3 packing will begin in September in the Maine market.

N.H. only - offering consumers 30¢ off pack coupon, on Mailbu which is attached to individual packs. American is also offering 20¢ off coupons on packages of Lucky Filter Lights.

Brown & Williamson

Maine direct customers have been contacted on behalf of Bel-Air and Raleigh. These two products are being reduced in price by \$2.00 off per carton off invoice (\$120.00 off a case off invoice). This product is being booked into retail accounts via B & W reps. Retail promo must reflect price reduction. This product is being sent in from a bonded warehouse in Connecticut to direct customers in Maine.

Kool Mild is being promoted via a Buy One Get One Free Program.

G.P.C. are being couponed at warehouse level with \$1.00 off coupons.

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Brown & Williamson (Continued)

Falcon Lights are receiving the major thrust of retail activity, \$2.00 off and \$1.00 off coupons are the primary vehicle that Reps are using to gain distribution. Hannaford Bros. has accepted product for retail release during late August. Shaws as yet hasn't accepted Falcon Lights.

Liggett & Myers

S/R's currently working Quality Class A Deluxe Ultra Lights (Kings, Menthol, 100's, 100's Menthol) in 30 ctn. floor bins in Shop & Save Supermarkets (Hannaford Bros.) with \$1.50 off coupons attached. This product has also been seen in S.E. Mass. featuring B1G1F 30 unit displays in Cumberland Farms.

Lorillard

It has been reported that Newport will be adding another new packing in the 4th quarter 1987, Newport Ultra Light Box. It has been rumored that this box will be a designer style of pack.

R. J. Reynolds

Bob Tedeschi of Tedeschi Food Stores accepted RJR's new overhead pack fixture but claims they are not working out. Apparently an incident occurred in which the trays fell loose and injured an employee.

Our DM's report substantial losses of our overheads to RJR's new one. The addition of our 6' Maxi and "Low Profile" will help the cause; however, if they begin to have mechanical problems as mentioned above, we'll be in good shape.

R.J.R. is offering Direct Customers, on a one-time basis, a limited quantity of Winston and Winston Light Kings 2 packs with a tumbler. R.J.R.'s rep. prepares the product and the distributor rep. sells and sets the display.

R.J.R. Flex Rack with electronic "beeper" is supposed to go into Stop & Shop #744, Quincy this week (8/24).

Salem Light's 100's box is being presented to the direct buying trade warehouse, deliveries starting in late August. This package has six sides and is being promoted as a custom case pack. Introductory allowances are \$22.00 off per case of invoice with a count-record of \$22.00 per case on product shipped to retail.

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COMPETITIVE ACTIVITY (Continued)

R. J. Reynolds (Continued)

It has been reported that Pine State is unhappy with R.J.R.'s exclusive arrangement with K-Mart in selling Doral and Austin. They feel that they may lose sales as a result of this arrangement.

Retail activity emphasis on Winston Box/Winston Lt. Box, B1G1F or B3G3F (option being given to retailers based on volume). Couponing all brands @ \$2.00 off/carton with a new twist. Not only are they doing self-service cartons, they have added an "A-1" Program for retailers that have cartons N.S.S. \$45.00 payment for two weeks for (60) carton display with back up stock which is all prebooked.

Doral and Century continue to be couponed heavily throughout the Section.

In the high volume stores in Southern N.H., RJR is aggressively couponing Winston, Salem, Vantage and Camel. The "deal" most frequently offered is 300 \$2.00 off coupons, with the chance to repeat the offer. This program has been verified in 20 accounts. Most stores feature the coupon, however, 4 of the stores implemented the program with a \$2.00 off sticker.

Merchandising - RJR refusing to sign and pay for carton contracts in dual rack accounts. Any account that has this condition signed after January '87 is to be terminated. Accounts signed prior to Jan. '87 are in a "grandfather" clause condition. I have held "old paper" contracts signed before and after Jan. '87 that may be confused with the fact that we are resigning all of our Plan A's. We have also been accumulating RJR contracts in accounts with PM and RJR racks that in fact have been signed after Jan. '87 in defense of this ruling. On the street we have not "given in" to these threats. We will not sign a Plan A in an account that removes PM fixtures for RJR and offers PM a 51 row contract.

TRADE CLASSES

Distributors/Wholesalers

A. H. Notini & Sons, Lowell, Ma., - John Notini, General Manager and Treasurer of A. H. Notini and Sons passed away on 8/24/87.

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TRADE CLASSES (Continued)

Distributors/Wholesalers (Continued)

Reids Confectionary, Houlton, Me. - It is rumored that this division of Reid/Morin will cease operations, and all business will be conducted through the Bangor, Me., facility. This may pose a problem for our Northern Maine Reps. (2).

Chains

Purity Supreme - Rumors are running rampant that the Purity Stores are up for sale by S.G.C. and that Li'l Peach is going to be purchased by the management group currently operating the Li'l Peach operation.

Hannaford Bros. - Is planning to open their first store in a new market area (New York State) in November, 1987, and plan on opening 6 or 7 more locations in 1988.

LaVerdierre Drug - Currently LaVerdierre management is seriously considering going self-service in all stores. Within their management, there is a group pushing self-service; however, there is also an opposing group due to fear of pilferage.

Returned Goods Salvage Program Recap

SECTION <u>11</u>	Month/Year <u>August, 1987</u> <u>(7/25/87, 8/1/87, 8/8/87)</u>	
	<u># Cartons Handled</u>	<u># Cartons Salvaged</u>
Sales Reps/Area Managers	<u>4,142</u>	<u>----</u>
Returned Goods Processors	<u>4,711</u>	<u>1,415</u>
TOTAL	<u>8,853</u>	<u>1,415</u>

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Key Account Contacts

<u>Date</u>	<u>Account (s)</u>	<u>Contact</u>
8/11/87 P.M. Golf Outing	A. H. Notini	F. Dolan J. Campbell B. Holmes
	Li'l Peach	S. Quinn
	George Melhado	W. Alberts T. Fillingham
	Alpert Bros.	W. Alpert
	Hills Dept. Store	C. Feldt
	Archer Kent	R. Carpentier
	Jiffy Mart	J. Barry Dixon
	N.H. Tobacco	E. Dufoe
	Shell Oil	E. Gaynor
8/17	New England Convenience Store Association	Golf Outing
8/19	Zayre	J. Plante
8/21	Stop & Shop	B. Mardo B. Pallazollo
8/26	J. J. Duffy Inc.	G. Duffy
8/27	A. H. Notini	
	Attended funeral for J. A Notini	

MERCHANDISING PROGRAMS

Carton Merchandising

System 2000 Stop & Shop - On August 21, 1987, a demonstration was held for the System 2000 carton fixtures for Stop & Shop. Bill Pallizollo, General Merchandise Manager, and Bob Mardo, Buyer, were in attendance. The combination of balanced inventory according to sales and increased merchandising payments made this proposal appealing to Stop & Shop. They will review the proposal and submit to Senior Management for approval. If they do agree (Continued)

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MERCHANDISING PROGRAMS (Continued)

Carton Merchandising (Continued)

System 2000 Stop & Shop (Continued) - to proceed, our System 2000 may have to be shortened by 2" to fit the front end profile of their stores.

System 2000 Zayre - A presentation was made to buyer John Plante for a 5' x 4' island merchandiser incorporating single packs. Carton fixture length would be 13' and packs would be 5'. Account reaction was favorable and a prototype was ordered for the Zayre P.O.G. Center. The rack will then be tested in one of the local stores. Racks would be five shelves high to meet Zayre profile requirements.

Purity Supreme - During August, we placed another System 2000 fixture in their Wethersfield, Conn. store.

Purity Supreme has decided they are not interested in our Electronic Message Center. They like the idea of the Message Center but felt that the Marlboro image was too strong. They would be willing to reconsider the sign if the image was softened.

LaVerdierre Drug - has agreed to place P.M. Value Centers in all of their self-service stores. Implementation should begin in September.

The LaVerdierre Drug store in Berlin, N.H. will be merchandising cartons in a self-service manner via a System 2000 carton fixture.

Mutual Oil (24 stores) - Has accepted placement of our 4-wide and 7-wide AV fixtures in their Manchester, N.H. store. The 4-wide will house our Value priced brands and the 7-wide will be a free-standing Marlboro display. (AM)

Pack Merchandising

A proposal was made to Zayre for a Marlboro Multiple checklane merchandiser for all Zayre locations. Zayre has expressed interest in the program and has asked us to set up a store with the displays in order to see the actual setup. If Zayre management likes the setup, I expect they will implement in all 313 stores.

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MERCHANDISING PROGRAMS (Continued)

Pack Merchandising (Continued)

Stop & Shop has approved one 2 x 2 x 2 checklane merchandiser for each of their 36 superstores. Each merchandiser will have 2 Plan R trays and house some magazines. The fixture is being customized for Stop & Shop by Kline Co. of Wrentham, Ma., who will be making the magazine racks that will attach to our merchandiser.

Stop & Shop will not participate in anymore P.M. pack promotion until we provide a method for scanning our 2-pack promotions.

Morse Foodmart (10 stores) - Our 16 module low profile spinner is being tested in their No. Kingston, R. I. store. Setup w/o 8/24.

Section Merchandising/Productivity Results

	<u>12/86</u>	<u>7/87</u>	<u>Change</u>
Plan A Rows	87,772	92,693	+4921
Plan A penetration	94.7	98.3	+3.6
Accts. w/pack racks	1,310	1,574	+264
Accts.w/ctn. racks	252	370	+118
Plan A	1,311	1,354	+43
Plan A-1	904	904	-0-
Plan B	1,975	1,868	-107
Plan M	608	848	+240
Plan R	38	51	+13
BG	632	932	+300
BV	1,118	1,434	+316
AG/AV	438	462	+24
Prime Position	1,215	1,407	+192
A.O.M.	1,436	1,789	+353
Accts. w/Perm P.O.S./%	6258/79.6%	6355/80.3%	+97/+.7

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SECTION ACTIVITIES

Productivity Trends - July, 1987

Maxi Call Rate	10.6
Regular Call Rate	10.3
True Call Rate	6.8
Selling time	73.6% (17.3% Hol./Vac.)

<u>Cycling</u>	<u># S/R's</u>
Cycled	13
90-95%	14
85-89%	2
80-84%	4
75-79%	3
-75%	21

Area Managers/SAM's

Area Managers/SAM activities were targeted at the Virginia Slims Ultra Lights introduction, follow up on Cambridge FF, Marlboro Sports Bag, B&H product rotation at direct account warehouses and initial introduction of B&H Lights Box.

Presentations on System 2000 carton racks and package fixtures continue to be conducted. Accounts we are currently pursuing include:

Stop & Shop
Zayre
LaVerdierres Drug
Purity Supreme
Wellby Drug
Mutual Oil
Morse Foodmart

Division Managers

DM's are working with Sales Reps. on filling distribution gaps on Cambridge FF, signing Plan A, A.L., A.V. and AM contracts.

Many new B.V. placements were made as a result of our Cambridge 2 for 1 programs. When Cambridge product was taken off the B/M units, Sales Reps. made an effort to sell retailers on placing product in B.V. displays.

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SECTION ACTIVITIES (Continued)

Division Managers (Continued)

DM's have been busy training and demonstrating presentations to key independent accounts regarding our pack and carton fixtures.

Other areas requiring Division Manager attention during this reporting period include:

- . recruiting - 4 divisions for S/R's,
all divisions for samples
- . follow-up training on the new ICR
- . 1988 objective setting
- . etc.

The extremely heavy administrative load on our DM's has lowered the moral of this key management group and has resulted in less training time. As mentioned in my last report, we need to make every effort to reduce the administrative load on all of our field managers. All of the administrative work only reduces the time field managers have to sell and/or train their people.

Special ProgramMarlboro Summer Sampling Program

The Marlboro Summer Sampling Program will come to an end this week (8/24). Some of our samplers will continue with the VSUL Program.

Accomplishments will be in subsequent report.

The Marlboro Merchandising Program (Heavy-Up) ends this month. This program was instrumental in keeping Marlboro inventories at a high level in Resort Areas. Program results will be in subsequent report.

The B & H Inner City Program ends this month. All materials have been utilized. This program added availability and visibility for Benson & Hedges through placement of B1G1F displays and 2-pack with lighter displays. Movement of both promotions was very good.

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SECTION ACTIVITIES (Continued)

Annual Golf Outing

Our Golf Outing took place on August 11, 1987, at the International Country Club in Bolton, Ma. The tournament went very well. All attendees commented favorably about the facilities and activities. At our Awards Dinner, virtually all our customers were recognized in one way or another by receiving a variety of prizes. This year we had 70 golfers from Sections 11 and 12.

P.O.S. Materials

The selling brochures for our indoor/outdoor Marlboro signage and mini shopping basket will be helpful in selling these items.

SALES SERVICES

The small desk computer and printers are installed and functioning well. We were able to utilize this new resource in preparing P.I.R. presentations, which helped make a significant improvement in the quality of the presentation; i.e., graphs, P.O.G.'s, D.P.P., etc.

SALES DEVELOPMENT

It would be very helpful if we could be provided with information from headquarters in 2 areas:

1. A menu of pack and/or carton promotions which we could sell and implement with our accounts.
2. Information on our successes in upgrading cigarette departments; i.e., increased sales, decreased pilferage, improved account profitability, etc.

In other words, what has been the results or benefits to accounts that have reduced O.O.S.'s, improved customer satisfaction levels, implemented larger departments, converted to centralized pack merchandising, etc. As we begin to "partner" with our accounts, we will need to be able to refer to our successes in order to demonstrate our expertise. Let's not wait for each SAM to have their own success story; let's share, too, the results of our labor from around the country.

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SALES DEVELOPMENT (Continued)

The new Sales Rep.'s Call Summary is creating some problems. We are working several programs in conjunction with one another; yet, the Call Summary is not flexible enough to conveniently record all necessary activity. The following problems have been reported:

1. Not enough room to write the name of the account in.
2. Promo Erect column should have a dollar amount column next to it. There is not enough room to report more than one Promo.
3. Sub total should be available instead of Line 14.
4. Gratis Packs Box under Daily Total should have Dollar amount Box next to it.
5. Spaces to write in are too small. Difficult to read.
6. Each line (call) should be separated by a bold colored line.

Changes to correct the situations listed above would make reporting easier for our Sales Reps. and make life easier for our DM's.

MEDIA

Maine Grocers Association has given us the opportunity to place a half-page ad in their monthly publication. Distribution of the "The Maine Grocer" is approximately 150 stores. The ad is FREE. Arrangements have been made through N.Y. to place a Marlboro Ad.

ASSOCIATIONS/CONVENTIONS

During the past month, we have participated in the following trade activities:

8/17	NECSA Golf Outing	H. Mize J. Keighley R. Webster M. Rudnicki
8/26	Mass. Candy & Tob. Assoc. Reception for new Director C. T. Littleton	J. Keighley

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MISCELLANEOUS COMMENTS

The Sky-Box at Sullivan Stadium is an excellent vehicle for us to entertain our key customers. We have been able to fill the suite for the past three events, Madonna Concert, Patriots/Giants pre-season opener and Patriots/Eagles pre-season game.

We are planning a Stop & Shop day in the Sky-Box in November and plan to invite key individuals up to and including the President of Stop & Shop. Details of this day will be communicated in the near future. We would also like to have key players from P.M. in attendance.

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I. Market Conditions

New PM Brands

The introduction of new Virginia Slims Ultra Lights has been very positively accepted by both direct and non-direct accounts. To-date, the only accounts pending are Brooks Drug (414 stores), CVS (609 stores), and Ames Dept. Stores (316 stores).

DMs report that the pre-booking program was very successful. AMs are working closely with wholesalers to secure additional inventory, and ensure a quick "turnaround" on orders to retail.

Most major distributors will be passing "PM's" onto their sales force for each carton of Virginia Slims Ultra Lights sold.

B & H Lights - All distributors contacted have accepted the brand. Major chain contacts start next week.

Cambridge Full Flavor - The word "on the street" is that Cambridge Full Flavor is looking good! The use of gratis in August, the BIGLFs, on-carton, as well as media-supported coupons have all contributed to make Cambridge Full Flavor stand out in the value market. We've developed a good foundation for Cambridge Full Flavor, as well as increasing distribution on Cambridge Lights. In order to build on this foundation, we must continue to support the brand through the media, and have the availability of on-carton coupons during the next several months.

DMs report distribution levels between 70 to 75% in MA, RI, and CT, and 80 to 85% in VT.

PM/Industry Sales

July unit sales were +1.4%, versus July '86, bringing our YTD '87 gain to +4.3%.

All Section 12 markets are up (CT, RI, VT), with the exception of Western Mass (-13.3% for July). Western Mass figures will continue to show negative as a result of TDC's Polep-Western Mass branch, which went out of business in Sept. '86. A substantial portion of their former chain business went to out of section distributors.

II. MAJOR COMPETITIVE DEVELOPMENTS

American - Vermont DM reports that American has appointed a Sales Rep to a newly established position. This "Senior Rep" will contact high volume accounts, as well as act as a "trouble shooter".

Pall Mall filters BIGLF (with \$1.00 off coupon) off next carton purchase.
Mini Floor Bin (30 cartons) \$6.00 payment - \$2.00 instant redeemable coupon.

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II. MAJOR COMPETITIVE DEVELOPMENTS (cont)

B & W - Capri - All program details previously submitted.

Sales Reps from Worcester/Springfield divisions are currently working the Capri introduction in Connecticut.

Retail activity has been limited to set/sells and B1G1F's. Retailers report movement is extremely slow after B1G1Fs have been depleted.

Two pack promotion with lighter is scheduled for September.

Falcon - Offering \$1.00 on-carton coupon, as well as 10¢ VPR in Magna markets. DMs report very little activity on Falcon in any area. Distribution is dropping fast, as many accounts begin to return product to distributors.

Ethnic Market (Providence, RI) - Kool is offering an on-going lighter offer with two-pack purchase.

L & M - "Classic A" offering B1G1F in select accounts.

Vermont DM reports the one full time L & M Rep in Vermont now has three part-timers to cover the state.

Lorillard - The new packing of True is being promoted heavily in newspapers with Sunday Supplement, offering 50¢ off a pack, with mail-in offer for three \$2.00 coupons on a future carton purchase. They are also offering a 20-unit display - buy two packs get free lighter.

Kent/Newport offering \$2.00 on carton coupon in carton outlets.

RJR - Massachusetts and Vermont DMs report that the heavy activity on behalf of Magna has finally slowed. Media coupon support and B1G1Fs appear to be much more limited. Reps continue to work counter displays and build inventories. Availability and visibility remain high.

Although the initial sell-in of Doral Ultra Lights 100's was very low key, distribution continues to grow!

Other Activities: Winston Red two packs with free NFL can coolers; Winston Box B3G3F pack offer.

Sales Reps continue to load in full margin brands with 15¢ off a carton and a \$2.00 on-carton coupon.

As previously reported, several veteran RJR Reps were voicing their intentions to take the RJR early retirement program. Since that time the program was officially offered and at least four (that we're aware of) accepted the program.

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III. TRADE CLASSES

Wholesalers

Capitol Candy (Hartford, CT) - AM Tom Tosun and SSS Ray Pelchat presented PM fixtures to the Capitol Candy sales force. Response to-date has been excellent, with several rack placement opportunities called in.

New England Grocers (Northboro, MA) - In response to VP Paul Goldman and VP Paul Mello's request, AM Paul Nebosky and SSS Dick Lodi have completed a field survey of New England accounts. Survey information will be analyzed and recommendations made on updating cigarette merchandising methods in those accounts. Appointment will be scheduled for late September to present recommendations.

Bozzuto's (Cheshire, CT - IGA Wholesale Grocer) - accepted Cambridge Lights Menthol Kings and 100's for the first time.

Allied Grocers (Windsor, CT) - Meeting with Allied's salesmen tentatively scheduled to discuss PM racks and programs. Attendance and other participation at their golf outing has hopefully gained us this previously denied activity.

Vendors

No activity to discuss this period.

Supermarkets

The new Marlboro Supermarket Baskets have been a huge success with the supermarket trade. AMs have made headway in calls which were previously "dead set" against any type of P.O.S. The following accounts have baskets in place to date: Victory Markets (11 stores); Iandoli Markets (13 stores); P & C Markets (17 stores); Mott's Shop Rite (18 stores); and Gran Central Markets (13 stores).

Finast (68 stores), 35 self serve Plan A's, 19 Plan AV) - appointment scheduled with V.P. Merchandising for 9/1 to discuss System 2000. Decision currently is to start placing large RJR Flex racks in their superstores only.

A & P (85 stores, 32 self serve Plan A's) - AV/AG plan-o-grams for Royale and other P/V brands proposed and accepted for all SS stores.

Food Mart (35 stores) - SAM Mark Lovley reports Buyer John Lucey has accepted Cambridge Full Flavor Kings and 100's for all stores.

Everybody's Markets (7 stores - no Plans) - S/R Joel Labonte has scored what we hope to be an important break through with this account. Joel has sold their store supervisor on our new low-profile spinner. This account has been anti-PM for several years. This may be the opportunity which could open the door for other programs.

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III. TRADE CLASSES (cont)

Convenience

Honey Farms (50 stores - 50 B3; 50 BV) - The implementation of the new BV program went very smoothly. All 50 stores now have BVs in place, featuring the full Cambridge family.

Cumberland Farms (1193 stores - 1102 B3) - Our new M4 Program (2 add-ons; primary position), previously reported for July implementation, has been on "hold" for the past two months. SAM Bill Finlan now has a "go" from Senior Buyer Steve Haringa, who has indicated there may be a chance at a late September or October implementation.

Dairy Mart (105 Corp. Stores - M4 and BV's) - SAM Bill Finlan met with V.P. Operations John Wynne and District Sales Manager Dan Wallace to discuss pack and carton merchandising. Dairy Mart is very much interested in increasing carton sales. Bill will follow up with DPP carton presentation in September.

General Equities (Hill Oil; Food Bag - 50 stores total) - SAM Mark Lovley, through some "tennis activities" has penetrated to highest level (CEO Ray Hill). Appointment has been scheduled to discuss Plan B/M. Counter displays (no manufacturer) have not existed in these two chains for the last three years.

Convenience/Gas

Xtra Mart (67 stores - 67 Plan M4; 32 Plan AV) - the placement of extender poles on low-profile M4 has greatly increased visibility, as well as improved compliance levels. Xtra Mart management is pleased with the follow-up by the sales force.

Aldin Associates (58 stores - 38 Convenience) - SAM Bill Finlan recently met with Director of Marketing Jeff Leedy and Operations Manager Ron Tateosian to discuss the implementation of a test for self-service carton merchandising in six of their 300+ cpw stores.

They are currently interested in low-profile System 2000 to maintain the same low-profile appearance throughout their stores.

Mass Merchandisers

Ames (322 stores - 322 Plan A) - it was previously reported that Ames was considering a further cutback in their rack size to a new customized 3x3x3 4-shelf RJR rack. SAM Bill Finlan now reports that all conversions will begin September 1. All L & M and American product will be sold from the service center.

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III. TRADE CLASSES (cont)

Mass Merchandisers (cont)

Ames (cont) - Although this fixture change will see PM lose space on some racks, it will actually give us an additional 3000 rows chainwide (upgrade from 32 row ALF to 54 row AL chain wide).

Ames management has stated that if this fixture change does not solve the problems (22% shrink), cigarettes will be discontinued.

Because of the problems that they are currently having with the cigarette category, no new brands are being accepted from any manufacturer at this time.

Caldor's (108 stores - 108 Plan A) - currently testing several stores utilizing RJR fixtures, as well as gondola shelving outside of the tobacco department. Cigarette merchandising decisions are now controlled by parent May Co. personnel, to whom we've been unable to penetrate to-date.

SAM Mark Lovley is currently developing a new plan proposal with alternative merchandising options, to be presented to these people over the objections of buyer Mel London, if necessary.

Drug

Brooks Drug (414 stores - no Plans) - No new activity

C.V.S. (600 stores - no Plans) - This account continues to be a "holdout" on Cambridge Full Flavor. Virginia Slims Ultra Lights is pending at this time.

Buyer Steve Perry has informed SAM Mark Lovley that no new brands will even be considered until September.

Liquor/Grocery/Other

Nothing new to report.

RETURNED GOODS SALVAGE PROGRAM RECAP

Section	12	Month/Year	July 1987
		# Cartons Handled	# Cartons Salvaged
Sales Reps/Area Managers		282	
Returned Goods Processors		4300	1023
Total		4582	1023

IV. SSM KEY ACCOUNT CONTACTS

Personal account contacts largely precluded during period by the following:

SSM Meeting (NJ)
SAM Small Group Seminar (NJ)
Section Meeting (and Prep) - VSUL; B&H; SpaceTrek
Management Meeting - (Objective Setting)
Three Golf Outings [PM; NECSA; Allied Grocers]
Region "SpaceTrek" Meeting (NJ)
RPA Meeting (Affirmative Action Objectives)
NYO Special Redeployment Meeting
Section Office - Special Redeployment Workshop

Cumberland Farms
Dairy Mart
Xtra Mart
A & P
Allied Grocers
Aldin Associates
Honey Farms

Personal contacts made at
Golf Outings and/or several
phone contacts during month.
Results or current status
discussed in "Trade Classes".

V. MERCHANDISING PROGRAMS

A. Carton Merchandising Programs

DMs are currently working with Reps identifying potential System 2000 accounts. With the lowering of the volume criteria, managers are confident that they will be able to penetrate many current RJR accounts.

Several accounts are now pending, but managers feel that many retailers may lean our way because they are tired of RJR's "strong arm" tactics.

To-date, six accounts have System 2000 implemented.

A-1 - The Marlboro Sport Bag promotion has been a "winner"! DMs report that they could have used double the allocation. 80% of allocation has been placed, with the remainder to go up first week in September.

B. Pack/Counter Merchandising Programs

The section increased B/M penetration from 33.1% in June, to 34.2%. BV's also were increased by 67 units. Sales Reps continue to sell BVs as a permanent home for Cambridge.

Cambridge Full Flavor 2 for 1 promotion was well-received by the trade. Sales Reps report that the wrapping of 2 for 1s was very time consuming, however, it did alleviate the excessive quantity of loose packs on the B/M displays.

Cambridge VPR Program - (see Section Activity - Special Programs).

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V. MERCHANDISING PROGRAMS (cont)

C. Vending

Nothing new to report.

D. Pack Fixtures

Placements of 58 package fixtures during the July cycle yielded a net increase of 67 new stores using PM package merchandisers of all types.

Overhead placements increased by 29, to 1,071 at the end of July (latest available RAS). This increases Section 12's total units placed since last January to 220 new OHPM units.

To-date, RJR has had no significant impact on our overhead merchandisers.

VI. SECTION ACTIVITIES

During August a great deal of management time was consumed with meetings; training activities; and trade functions: SSM Meeting (NJ); SAM Small Group Seminar (NJ); Section Management Meeting (objective setting); three Golf Outings; Region "SpaceTrek" meeting (NJ); RPA Meeting; NYO and Section Special Redeployment Meetings; and Section Sales Meeting (B&H, Virginia Slims Ultra Lights, SpaceTrek).

Other activities during the month included: Cambridge introduction; Cambridge BlG1F wrapping; Virginia Slims Ultra Lights pre-booking; Marlboro A-1 placements; Marlboro Summer Sampling Program; B & H Package Conversion; hiring Virginia Slims Ultra Lights Samplers; P.O.S. Facility Consolidation; covering three Sales Rep vacancies; and Vacations.

Only 49% of our territories cycled 90%+. Call rate was "on target" at 11 per day. Given the circumstances discussed above, will have to accept these numbers. Help is on the way!

Special Programs

Cambridge 25's VPR Program - all reports from DMs have been very positive. The timing of the VPR Program was perfect in the Magna test areas, since the availability of Magna BlG1Fs seems now to be greatly lessened. Our program has only been implemented for a short time, so it is difficult to measure its total impact on Magna, or, in fact, in terms of Cambridge increaes.

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VII. SALES SERVICES

Strongly recommend Marlboro Supermarket shopping baskets become a continuous item.

VIII. SALES SUPPORT

Nothing significant to report.

IX. MEDIA

Nothing significant to report.

X. MEETINGS/ASSOCIATIONS/CONVENTIONS

[See SSM Account Contacts for Details].

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Section 13

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OPERATIONS REPORT

I. MARKETING CONDITIONS

Cambridge - At the direct level Rite Aid, Mark Stevens, and Golub are still pending, however, N.F.S., Olean Wholesale and Akel accepted this month. Pending chains are Rite Aid, C.V.S., Price Chopper, Price Chopper Gas and N.S.I. Cumberland. Distribution was made this month to Carl's, Tops, Wilson Farms, B-Quick, Victory and Giant Markets. The Albany and Kingston Divisions worked the select 25¢ off coupon promotion and utilized the entire 19,000 allocation. Additionally, the Section worked the second BIGIF promotion which was the banded offer for non-select markets. Progress continues to be made with couponing at Direct and noted sales improvement has resulted.

Virginia Slims Ultra Lights - The Section has Fay's, Whalen Wholesale, Victory, Golub, Stewart's, Mohawk Candy, J. English, Akel and Flickinger (Elmira) pending at the direct level. The initial acceptance has been effected by vacation schedules and our transition to the S.A.M. position. Noted progress should be made next month with distribution of pre-books and a current accurate status given at that time on chain acceptance. Chain acceptance has been excellent to date relative to chain participation in the Supplemental Display Program because chains like the support extended to the brand over a three month period.

Philip Morris - Section 13 continues to lead the Region in sales growth and as of the end of July sales are up 6.6%. Marlboro has a share gain of 1.81%, Merit .1% and Virginia Slims has a .02% plus. Price Value growth has been at the rate of 14%. Further growth should be achieved through the Virginia Slims Ultra Lights and Benson & Hedges Lights Box introductions in 1987.

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Industry - Monroe County passed its restrictive anti-smoking bill on 08/01/87 and this law was based on the Public Health Council's strict anti-smoking rules which were defeated in court since they were not enacted by a legislative body. The Amendments to the Cigarette Marketing Standards Act (A.8587) have been approved by the state legislature and is now awaiting for a signature by Governor Cuomo. The key issue of chains being 15 stores or more is addressed by the inclusion of co-operative, franchises and large volume outlets definitions. A reduction of three-quarters of a percent markup from direct is included.

II. COMPETITIVE ACTIVITY

American - Malibu has been reported at one jobber and has pre-attached factory \$3.00 coupons. Reps are placing BIGIF's on Pall Mall Red Filter King and 100's and the introduction has gone statewide from the Albany market. A \$1.00 off coupon is included from the factory for the next carton purchase. Lucky filters continue to be generized with \$2.00 off coupons.

Brown & Williamson - Capri is not available at direct, however, presentations have been made to McLane N/E and Mountain Candy. Distribution has been made in the Kingston Division via Section 15 accounts like Shop Rite. Couponing continues on behalf of Barclay, Falcon, Kool and Richland (\$1.00 and \$2.00) and 10¢ per package with Falcon. Falcon featured a BIGIF promotion. A volume sell-in was conducted on the Kool family offering 25 cents per carton to retailers.

Liggett & Myers - Eve and Larks are being offered in B2G Free "I love N.Y." lighter in 20 unit displays with a \$2.00 display payment.

Lorillard - Newport Stripes continues to be promoted in the Albany Market with BIGIF displays and B2 get free lighter promotions. Distributors reported an out-of-stock at the factory and were unable to order product. Reps. removed all slim style Newport Stripes from Cumberland Farms which were shipped in error. Lorillard is now using a universal coupon for \$2.00 and the all purpose coupon is being placed on all their packings as desired. Reps. are still in the process of converting their Trues because of the packaging change.

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R. J. Reynolds - The new Winston Lights Box is appearing at retail in BIGIF promotions. Doral couponing has been reduced in Albany from \$1.00 to 50 cents off. A Magna promotion in Albany features buy 2 and get a free pair of Sunglasses. Product is not selling well unless there is a promotional offer. K-Mart has accepted Austin (generic) and distribution will be made through their many distributors. K-Mart's letter stipulates that only Austin and Dorals may be carried in K-Mart after 10/04/87.

III. TRADE CLASSES

Wholesaler Distributors - Three jobbers have expressed interest in going direct. Naps, Trifilio and Wusetfuld are in the process of completing their applications for direct. All distributors are closely watching the progress of the Amendments to the Cigarette Marketing Act reporting in Section I-Industry. Applications for Direct are pending for J. Corrigan (change of ownership) and Day Wholesale.

Wholesale Grocers - N/A this month.

Supermarkets - Hannaford has expanded to New York and has opened its first store in Albany. Four stores are being currently tracked at P&C and will be converted in the near future to 2000 Series racks. Three Big M stores now have 2000 Series fixtures in place. The Shop Rite conversion to Plan R has been completed in the Section as well as completing placements of AV in A&P. Significant increases will be made at Grand Union relative to P.M. space with their recent signing to a 84 row agreement. Wegman's has shown more co-operation to our S.A.M. and Virginia Slims had four packings authorized from their warehouse (previously ordered from secondary source). This increased distribution at Wegman's should increase their total sales as new and old packings are authorized.

Convenience/Gas - Ed McQuigg will speak at the September 16 N.Y.A.C.S. Fall Conference to be held in Syracuse. Implementation has begun with the new Sugar Creek (61 stores) contracts which are plan A.M., A.V., B.V. and M-4. Shopping baskets have been authorized at Stewart's, Herkimer Petroleum, Red Barrel, Busy Bee, Delta Sonic, Alaskan Oil, Sunrise Foods, Wilson Farms and Petr-All. C.F.M. has agreed

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to place 23 M-3's and has signed a contract. Twenty-two additional overheads are on order for Stop & Go. Stewart's (150 stores) participated in its first A-1 (Marlboro) and Mobil Oil corporate stores had their first direct ship A-1's from the Herkimer group. The entire Busy-Bee chain (26 stores) will now have M-3's and this will increase the total by 13 since the chain previously was split with R.J.R.

Drug - Carl's Drug is in the process of conducting a buy-out of their stores from Revco. Carl's requested and received a second shipment of Marlboro Shopping Baskets for all their stores since one per store was not sufficient. Carl's participated in the Marlboro A-1 and this was the first A-1 in their 42 stores in several years. R.J.R. told Fay's they would not set a precedent by signing for the top two shelves on a 2000 Series rack.

Mass Merchandiser - The Zayre store in Plattsburg has Plan R (2-1x3x1's) and Plan AV with authorization from headquarters gained for S.R. Papineau via S.A.M. Webster of Section 11. S. E. Nichols has converted from C/I to Plan A (row) and the contract is currently being implemented in the Section. K-Mart has authorized R.J.R.'s Austin and distributors have been notified Austin and Doral will be their only authorized generics. Hill's continues to add new stores to the list of stores authorized to carry cigarettes and several new stores are gained monthly.

RETURNED GOOD SALVAGE PROGRAM

<u>REPORTS FROM:</u>	<u>CTNS. SALVAGED</u>	<u>CTNS. RETURNED</u>	<u>TOTAL</u>
AM's ()	-	-	-
RGP's (3)	1259	4664	5923
SR's ()	-	-	-
TOTAL	1259	4664	5923
% RATE	21.26	78.74	100%

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IV. KEY ACCOUNT CONTACTS

- 07/27 - Standard Rosenbaum - I discussed P.M. programs and Cambridge movement with President Dick Naigles.
- 07/28 - Lobell's - I met with manager Phil DeCandia to review progress with Mobil force shipments and to discuss Cambridge couponing.

V. CARTON MERCHANDISING

Carton Merchandising - The Section showed a slight decrease in total rows last month, however, with the implementation of SPACE TREC this week future progress should be made. Details of the program have yet to arrive and progress will be reported in this area starting next month.

Marlboro Sports Gear A-1 August - Fourteen chains participated in Marlboro A-1 and we will definitely utilize 100% of our 706 display allocation. Significant is the fact that Stewart's (155 stores), Carl's Drugs (42 stores) and Mobil Oil (21 stores corporate) were direct shipped. The Section was granted an allocation of 5,000 Marlboro Music Cassettes (Volume I) which were utilized on A-1's in August since our allocation had to be stretched to meet overall Section demand. The Sports Gear incentive was excellent and the promotion sold very quickly.

Pack Merchandising

Plan B/M/BG/BV - C.F.M. signed a contract for 23 M-3's and Busy-Bee expanded their M-3 from 13 to 26 stores.

Cambridge 2 for 1 - Although retailers liked the buy back for the promotion in our non-select market, the banding took an unusually long time period to construct and affected Section call rate in August.

Special 25¢ Off Promotion - Nineteen thousand coupons were placed in the Albany and Kingston divisions in a special effort to offset Magna introductory offers.

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Special Merchandising Programs

The Section will participate at the New York State Fair and will run the Marlboro Lighter Promotion, Cambridge BIGIF, and have mini counter balance signs at each of the stands. Attendance is expected to exceed 800,000 people.

VI. SECTION ACTIVITIES

The Section achieved cycling in 23 of 50 assignments in July and call rate in August was 10.1. The multiplicity of programs and the desire to ensure an in-depth call during the Cambridge Full Flavor introduction affected normal cycling achievements and call rate. Retail call emphasis was placed on the Marlboro Sports Gear A-1, the Cambridge BIGIF (banded offer) and the Cambridge 25¢ off Promotion in Kingston and Albany divisions. The Section has filled five vacancies and has now only one with the recent promotion of Richard Sullivan to A.D.M. of Syracuse. Work continues on behalf of Virginia Slims Ultra and B&H Lights Box introductions by both our A.M.'s and S.A.M.'s. Noteworthy achievements were made by A.M.'s and S.A.M.'s during the month of transition, especially with placements of the Marlboro Shopping Baskets and distribution gains for Cambridge Full-Flavor. The Section now has two P.O.S. warehouses and is in the process of gaining the third warehouse. The Marlboro Summer Sampling program has ended and recruitment is near completion for the Virginia Slims Ultra Program with only one opening remaining.

VII. SALES SERVICES

Systems - The Section's Command Center is placed and now appears to be operational since both the plotter and printer are working.

Fleet - No instructions have been received to date relative to the Potential Inferior Defects - 1987 Vehicles letter sent from Crown Divisions. The Section has 13 such vehicles and six have reported structural problems. The Section now has all mini-vans with the last few cars being traded in last month. Fleet was most accommodating in gaining the four emergency vehicles due to the creation of the two S.A.M. positions and two retirements. Personnel were very pleased by the quick response and the vehicles granted.

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Materials Distribution - Nothing significant to report.

Office Administration - The Section has begun the process to increase its space. We currently have no conference room because of the addition of the Command Center. Adjacent space will be available in September and I have written the leasing agent exercising our exclusive option.

VIII. SALES DEVELOPMENT

The Consultative Selling S.A.M. II Seminar conducted by Mack Hanan was found to be most beneficial by both Section 13 S.A.M.'s and me. Preparing P.I.P.'s for actual accounts and working in a smaller group allowed for individual attention and indeed ensured for clarification on many principles. We believe inroads have been made with Consultative Selling and look forward to receiving input back on initial P.I.P.'s from Mack Hanan.

IX. MEDIA

D.M. Chuck Wallace has reported a void of billboards in Columbia, Dutchess and Sullivan Counties in the Kingston Division. D.M. Greenwald noted that on June 01, 1987, all P.M. billboard advertising was removed in the Plattsburg Tri-Lake region and that in past Summers visibility had been excellent.

X. ASSOCIATIONS & CONVENTIONS

- 07/27/87 - S.R. Joe Staknis' Twenty Fifth Anniversary Luncheon was held in Saratoga and attended by employees, customers and Mr. Staknis' immediate family.
- 08/03/87 - S.S.M. & MPA Meeting for Region I was held at the Newark Marriott and conducted by D.R.S. Henry Mize.
- 08/06/87 - Affirmative Action Meeting was held at the Region Office for Section 13, 14 and 15 and conducted by R.P.A. John McNamara.

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08/10-12/87 - Consultative Selling Seminar was held at the Newark Marriott for Section 13, 14 and 15 S.A.M.'s and was directed by Mack Hanan.

XI. MISCELLANEOUS COMMENTS

Incentive displays, BIGIF offers and couponing on the part of our competition has created a situation where set/sells are no longer as viable as they once were. Retailers are now so accustomed to offers with incentives that they find it difficult to understand why they should place a set/sell. Additionally, B penetration improvement makes placements of set/sell even more difficult. I believe serious consideration should be given to the concept of having only BIGIF offers or incentive offers monthly and ensuring numbers to offset discontinuance of set/sells.

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I. MARKETING CONDITIONSCambridge Full Flavor

Distribution on this brand presently stands at approximately 50%, highlighted by higher percentage on Long Island then the Inner-City. Overall, sales have been, for the most part, spotty with movement contingent on 2 for 1's promotions and couponing. In an attempt to increase distribution and sales, our Area managers will be couponing at the wholesale level with emphasis on those high volume carton outlets with a market for the price value category.

The banding of 2 for 1 at the retail has had a positive impact on the sales of the brand, however, this task is extremely cumbersome and has had a negative impact on overall productivity.

Virginia Slims Ultra Lights

The wholesale sell-in has been completed with 100% distribution. The Virginia Slims Ultra Lights incentive items were by far the best we have had and were well received at the headquarter levels.

Pre-booking at the retail level has improved significantly in comparison to Cambridge, resulting primarily from the strength of the V.S. brand family.

We have also worked through the problem with those wholesalers who were reluctant to ship product to retail on pre-book orders.

P/M Industry

Year to date sales figures show the section to be down 5% through July which is a 2% improvement over June. S.O.M. through June stands at 40.7% which is 1.5% increase based on the corresponding quarter of 1986.

Our 5 major accounts are down year to date by 9.6% with Nu Service and Valley Stream down substantial - 18.1 and 14.6 respectively. The financial problems have been the main contributing factor at Nu Service, However, we have been monitoring closely oos situations at this account. At Valley Stream Distributors we are attempting to work closer with David in developing merchandising programs for the chain accounts he services to build business. Results to follow on subsequent reports.

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II. COMPETITIVE ACTIVITY**AMERICAN**

Continue to concentrate on selling their Generic carton fixture to chain accounts. Payments schedule per shelf according to volume are as follows:

<u>Monthly Payments</u>	<u>Participating Retail Outlets</u>
Store's Average Total Weekly Carton Volume	Payment Per Shelf Up to a Maximum of 5 shelves
500 and Over	\$9.00
400 - 499	\$7.00
300 - 399	\$5.00
150 - 299	\$3.00

Pall Mall Filter Introduction to distributors, \$45.00 per case, 3 1/4%, 30 days. Promotional incentives include a \$2.00 off in-store coupon attached to each carton being shipped directly from the manufacturer.

Coupons and B.I.G.I.F. remain their primary methods of promoting their products. Promotions are a B.I.G.I.F. on Pall Mall 100's on (\$1.00 off, carton coupon attached), Carlton and Lucky Strike \$2.00 off in-store coupons.

BROWN & WILLIAMSONCapri Introduction

B&W is setting up 20 and 40 pack displays with a \$2.00 and \$3.00 display payment. Along with this, the retailer receives free cartons of complimentary 20's. These complimentary 20's are also given to retailers when the brand is placed in B&W's permanent counter display. Retailers receive 50 cents off every carton purchased over 10.

B&W's Sales Reps have informed several of our Sales Reps that they are having trouble getting the brand in. Attempts include exchanging product out to get Capri in, or exchanging as little as 6 packs of damages for Capri.

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Sales Reps are also reporting only high volume stores are receiving the brand. The following programs are being highlighted in their selling Brochure:

1. BIGIF displays (September) w/free standing inserts with pack and carton coupons.
2. Direct mail coupons
3. Carton floor displays
4. Pack floor displays
5. Semi permanent plastic counter display 20 packs (much like the plastic display RJR used for the Sterling introduction).
6. Full color billboards, magazine and Sunday supplements are planned.
7. Posters, cards and talkers

LIGGETT & MYERS

L&M has recently introduced a new counter display for their Generic products, similar to our B-V display. It is made of plastic, capacity of 30 packs, \$1.50 payment to retailers. L&M continues to feature their various products (L&M, Lark, Chesterfield, etc.) with a \$1.00 instant re-deemable coupon.

LORILLARD

Lorillard is concentrating on improving depth of inventory and distribution on Newport. They are featuring a .50 off a carton sell-in on the brand. On pack incentives include a free Lighter or Key Chain with a 2 pack purchase, 20 unit display, \$2.00 payment. also a BIGIF promotion, 4 carton display and \$2.00 payment is being offered.

In addition to Newport, Lorillard is working the new True package in the area. Featured incentive item is a free Key Chain with a 2 pack purchase. Overall, the new packaging has made a positive impact with visibility and consumer awareness.

R.J. REYNOLDS

Salem Lights 100's Custom Case

Wholesale introduction - \$22.00 per case on allocation, 3 1/4%, 30 days. In addition, RJR is offering an accelerated Distribution Incentive Program of \$22.00 per case shipped to the retail trade. Retail introduction is scheduled for late November or early December.

RJR continues to solicit retail accounts that have our overhead fixture for replacement. They are using various Payment schedules ranging from \$50.00 to \$200.00 per store to replace P.M. rack with theirs. Thus far, minimum loss of overheads have been experienced in most territories in the Section.

Load-ins, featuring all of their major brands offering 25 cents per carton to retailers, remain their primary method of promoting. A \$2.00 off coupon is attached to each carton, reimbursing retailers up-front for coupons. Product is being pre-booked versus selling from auto.

To capitalize on the N.F.L. Football season, RJR is featuring a regionalized team logo (Giants and Jets) hand cooler with a 2 pack purchase. They are paying Distributors to assemble this promotion for direct shipment to retailers.

Currently, RJR is "crewing Driving" in most areas to seek and destroy all P.M. P.O.S. materials. Their primary goal is to replace all P.M. P.O.S. with RJR materials at any cost.

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III. TRADE CLASSESDistributors

Particularly in the urban areas, pre-booking of Cambridge Full Flavor was a problem. Specifically, the problem is two-fold, retailers refusing product at the time of delivery and distributors not shipping due to the quantity of pre-booking orders (shipping 10 cartons or less is too costly). The problems have been rectified and have maximized pre-booking for V.S. Ultra Lights.

The wholesale introductory sell-in has been successfully completed for all direct accounts in the Section on V.S. Ultra Lights. Allocation has been sold to all accounts.

Sell-in of the B&H Lights Box remains slow due to the distributors perception of confusion regarding the two new introductions. Most distributors have indicated no problems in accepting B&H Lights Box. However, only once the V.S. Ultra Lights program has been implemented.

Wholesale Grocery

Metro-Spanish has recently leased additional space at their bronx Terminal Market location. This expansion is due to their increased business in the Hispanic market.

Supermarkets

1. Key Food Stores: Store Managers report excellent productivity with new store configuration. Unfortunately, the cigarette room is now the Computer room and, of course, cigarettes will suffer.

2. A&P Stores: Local Store managers refusing all authorized promotions. Royale hasn't yet arrived.

3. Pathmark: Isolated instances of stores removing fixtures due to pilferage.

Convenience Stores: Almost all 7-11's are now renting video tapes. Some are getting into machines. Compliance on carton racks is very low. Most D.M.'s reporting this to be a major problem.

Gas Outlets: - Shell Gas Stations in Eastern Long Island are converting Food Marts and plan on extensively merchandising cigarettes (overheads and carton fixtures).

Drug Stores: Nothing new to report.

(Cont'd)

Mass Merchandisers: Nothing new to report.

Vendors: Nothing new to report.

Other Retail Outlets:

If looks as if TSS Seedmans may finally be sold.
Earlier this year, the Price Company attempted to do so.
The stores are expected to keep their current merchandise mix.

RETURNED GOODS SALVAGE PROGRAM

	<u>#Cartons Handled</u>	<u>#Cartons Salvaged</u>
Sales Reps/Area Managers	-----	-----
Returned Goods Processors	7,483	164

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IV. KEY ACCOUNT CONTACTS

Golden Tobacco: Met with account to discuss the following topics:

1. Virginia Slims Ultra Lights Introduction with Sales Manager, Ira Gafarian.
2. Couponing for specified accounts to be done at the wholesale account by our Area Manager.
3. Discuss with Owner, Lou Helfstein new Fair Trade Bill being introduced in Albany.

Metro-Spanish, Candy City: Met Owners of these direct wholesaler accounts for the first time. Due to the high percentage of the cash and carry business that they do, we have received approval to conduct store sales at these accounts for the cash and carry retail customers.

Met Tobacco: Met with this account to discuss the following topics:

1. V.S. Ultra Lights Introduction with V.P. Paul Messina.
2. Met with Sales Manager, Ron Koppell to discuss materials we will be presenting to his Branch Managers on August 27th. Results of meeting to follow.
3. Met with Assistant Branch Manager, Paul Gallo to discuss 2 for 1 product being sent to Rikers Island.

Valley Stream Distributors: Areas discussed were:

1. V.S. Ultra Lights Introduction.
2. Solicited his assistance on behalf of our merchandising programs to several of his key

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V. MERCHANDISING PROGRAMSPlan A

Since June, the total number of independent A's have increased from 463 to 467 (4 new plans). On the other hand, the total number of carton fixture rows have decreased from 42.4% of available rows to only 42.0% (56,613 total rows in June to 56,361 as of July's ending report). This decrease can be attributed to our Sales Reps efforts to consolidate over-racked accounts (low volume accounts with large racks), plus excessive ICR reporting problems. It is anticipated that the new Space Trek Program will be very advantageous in increasing the Section's overall rows.

Carton Fixtures

In spite of decreasing rows, the total number of P.M. fixtures continue to increase in the Section. Currently there are 234 accounts with at least one fixture, up from 220 in June. Limited number of System 2000 racks presentations were made during July. During this reporting period, only 1 rack was implemented with 2 others pending.

B&M Series Displays

Total B&M Series Displays are down for this reporting period (minus 4 displays). Our Sales Force continues to emphasize maximum compliance, thus eliminating chronic non-compliance accounts. Nevertheless, the Section continues to enhance M-3 and M-4 penetration. During July, both categories increased by an additional 7 displays over the June reporting period.

AV/AG

The section experienced a net gain of 5 new contracts during July, bringing the combined total to 179 displays. As the distribution of Cambridge Full Flavor continues to increase, thus does our opportunities to capitalize on new AG/AV placements.

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BV/BG1987 ObjectiveYTD Achievements

B-G - 1,100

B-G - 875

B-V - 1,000

B-V - 741

July's reporting period revealed a decrease in the number of B-G's, however, B-V's were up. This is the first time a negative assessment has been reported in either category since January. Again, this area has been affected by the lack of available displays.

Package Fixtures

In analyzing this area, significant progress has been made with increasing our overall presence in the market. Comparative analysis: June versus July, the Section had an increase of 197 additional new placements. Now the Section has 2,487 accounts with at least one fixture. The most significant growth has been gained with our overhead pack fixtures. During July, 41 new overheads were placed. This increase would be substantially higher if we had the available manpower to handle the back log of work-orders. Only 6 of our 7 assigned Retail Merchandisers are working (1 out on STD) resulting in a 15 to 20 days back log of orders to be processed.

Marlboro Special Summer Merchandising Program

Two of the 3 buy-in periods for this program has been successfully completed. Overall, the program has been very instrumental in building inventory levels for the Marlboro brand. Results for the Section thus far are as follows:

June's buy-in - 45,000 cartons

July's buy-in - 37,755 cartons

The final results and overall evaluation of the program will be reported in next month's report.

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A-1's - Marlboro Soort Bag

Initial response of this promotion has been excellent from all participants (P.M. Sales Reps. Retailers and Consumers). The flexibility of presenting the promotion to all potential accounts, not just those currently under A-1 contract, should make this a very successful Marlboro A-1. Perhaps this flexibility should be extended for all future A-1's, allowing the section to capitalize on opportunities in the market.

Cambridge Full flavor 2 for 1 promotion

This promotion did an excellent job creating additional distribution, inventory and exposure for the Cambridge brand. Good movement has been noticed when the brand is being featured with 2 for 1 promotion. However, once promotion is over, very limited sales are recognized. Since our market is not price value oriented, a quarterly run of 2 for 1 on Cambridge would be an excellent avenue to sustain distribution, inventory and sales.

Special Merchandising ProgramB&H Inner-City Marketing Program

Since implementing the program in June, distribution on the B&H products has increased from 92.4 to 92.7 (July's ending report). The 2 for 1 promotion, Lighter display and P.O.S. were extremely beneficial and well received by consumers.

On the other hand, the Sampling Program was not as successful. Only 2 out of the 6 allocated samplers were hired for the program. Problems with recruiting samplers with all the qualifications (auto, insurance, etc.) plus the pay scale (\$6.00 per hour), adversely affected the program. In order to maximize our returns, perhaps an outside agency should be utilized to hire samplers for future programs.

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VI. SECTION ACTIVITIESRetail Activities

In spite of the DE emphasis on cycling during Cambridge Full Flavor Introduction, the Section continues to maintain a consistent number of territories cycled. During the July reporting period, 58 out of 67 (6 vacancies) available territories were cycled at 90% or better. Since the emphasis was reverted to call rate, the Section's achievement for July (12.1 True and 12.2 Maxi) was the highest call rate YTD.

Other retail involvement included: The implementation of Cambridge Full Flavor 2 for 1, Marlboro Sport Gear A-1, pre-booking V.S. Ultra Lights, selling the Marlboro Special Merchandising Program, participating in various Ethnic Festivals and Summer Resort plus numerous other activities. All indication is that these programs or activities have been successfully implemented in the Section.

Management Activities

The primary management activities during this reporting period involved V.S. Ultra Lights and B&H Lights Box sell-ins to direct distributors and chains. In addition, activities included coordinating Marlboro Special Merchandising Program, Cambridge 2 for 1, special Ethnic Festivals and recruiting for vacant assignments. In order to successfully implement the numerous activities in the Section, it is of paramount importance that Managers maintain positive attitudes with their respective personnel and accounts. It is with slight prejudice that we report the entire Sales Team of Section 14 continues to be a well oiled machine, successfully responding to the ever increasing pressures of our market and industry.

Special Projects

On Carton Coupons - In order to maximize the potential for Cambridge and Players, on-carton coupons have been allocated to Area Managers for use at distributors. Area Managers and part-timers will attach coupons to product for shipment to the retail trade. This program will be presented to predominately carton outlets serviced by participating distributors. Several key distributors have expressed interest in participating in the program.

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Store Sales - Area Managers are currently exploring the feasibility of conducting store sales at several distributors with predominately cash/carry business. Basically, this program will offer gratis to customer who purchase a minimum of 10 cartons of V.S. Ultra Lights. Specifically, this gives us an additional avenue to gain distribution and inventory to accounts not in the regular workload. Thus far, store sales have been scheduled for late August or early September at Jetro (2 locations), Metro Spanish and H. Mellman. Results of the test will be reported in next month's report.

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VII. SALES SERVICESPlanning Desk Workstation

Excluding the planning desk, all materials and computer equipment were received in the Section Office in a timely manner. Currently, the SMART System is working very well with minimum problems. However, several problems existed during the initial set-up of the system. The majority of these problems were successfully corrected by Information Service Department. However, assistance is still needed to correctly identify and tag the various coaxial cables for each P.C. terminal. This problem developed when the Region Office moved to New Jersey, taking the Region computer equipment. The coaxial cables are not properly tagged to correspond with the appropriate P.C. terminal and port assignments. In order to correct the situation, we are requesting someone from the N.S.D. Department in Richmond to visit our office to rectify the situation.

Thus far, MPA Bennie Darden and SAM Gene Ruggiero have found the system to be very beneficial in compiling chain presentations. MPA Bennie Darden spent several days teaching and demonstrating the various function of the system to SAM Gene Ruggiero.

Office Administration

The re-evaluation and re-assigning of job duties to each Administrative Assistant will be placed on the back-burner until further notice. The numerous new programs have necessitated the revamping of various functions in order to maintain efficiency in the Section Office.

Special Projects MonitoringAuto Break-Ins

During this reporting period, the Section did not experience any auto break-ins. This is the first month during this year that no loss of company property has been tracked in the Section. We will continue to emphasis caution with our people in working the high crime areas.

(Cont'd)

2043944906

Section issued Drafts

The procedures implemented for this area have proved to be very beneficial in reducing the number of drafts issued from the Section Office. During the last 2 months, an average of 12 drafts have been issued from the Section Office, a reduction from 30 or more drafts previously.

Salesmen Expense Late Voucher Report

This is another area the Section continues to make significant progress with improving. Due to the heavy meeting schedule for MPA Bennie Darden during July, the 7 numbers listed on the report last month will not be updated until the August cycle. Nevertheless, monitoring of this report will continue to be a priority to insure minimum problems exist.

2043944907

VII. SALES DEVELOPMENT

Presentation Materials - The Direct Account Profit Sheet used for the B&H Lights Box sell-in was an excellent sales tool. However, the unavailability of one for the V.S. Ultra Lights slightly hindered our professionalism, (all Area Managers had to develop their own profit sheets).

2043944908

IX. MEDIA

Nothing new to report.

2043944909

X. MEETINGS/ASSOCIATIONS/CONVENTIONSDivision Meetings

Attended Division meeting on behalf of V.S.Ultra Lights. all meetings conducted by our Management Team were professionally done and generated a high level of enthusiasm among our sales people.

Supervisor Meetings

Met with Supervisors to discuss the upcoming V.S. Ultra Lights and B&H Lights Box introductions. Also reviewed with them our ASP objectives and increased participation in our MAP and MDP program.

Small Sam Seminars

Attended this workshop with SAM Gene Ruggiero. Overall, this workshop proved to be very beneficial in providing us with the tools to make better profit oriented presentations to top management personnel.

Region Meeting

Attended meeting with MPA B. Darden to discuss our upcoming Space Trek program. Overall, this should be an excellent program to gain the additional row needs. This topic will be discussed at our Section meeting on 8/28.

2043944910

XI. MISCELLANEOUS COMMENTS

Hispanic Worlds Fair - held at the Jacob Javits Convention Center on July 9th, 10th, and 11th. Activities included mass sampling of 102 cases of sample 6's and the raffling off of over 5,800 T-Shirts, Caps, Visors, Lighters and Poker Cards. this was an overwhelming success with all items being distributted by Sunday Night. Croud control proved to be a problem at the time. This was crrected by adjusting procedures until all participants were adequately accommodated. the event ran well with enormous consumer impact, the benefits of which will help guarantee future demand and success. I recommended at futu're events a uniformed guard is hired to monitor crowd control

2043944911

I. MARKETING CONDITIONSNEW P.M. BRANDSCambridge Full Flavor

Reports from the field are encouraging. The \$2.00 carton coupons and two for one product have generated consumer trial and we are seeing repeat business. In August, we will continue to work on expanding our distribution both at retail and in the chains. At this time it appears that we have gained distribution in approximately 50% of the calls in our universe. This is a conservative estimate because we've been advised that our printouts on distribution are not accurate for July. The following chains are still pending distribution:

- Pathmark
- A & P
- Krausz's
- Quick Chek

Virginia Slims Ultra Lights

Our SAM's and AM's, wherever possible, have appointments and presentations to their chains (vacation schedules have played havoc with this intro). We have 100% acceptance at our wholesalers and the Rep's have been writing their pre-bookings. On August 26, 1987 our AM's are scheduled to sort our pre-books and deliver them to their accounts on August 28 and 31, 1987.

Please note: On these pre-bookings, we filled the orders with our 10¢ off per carton on Marlboro. This was done for several reasons: We want to make the pre-books more than just five or ten cartons so the wholesalers will honor them; we also want to balance our Marlboro inventories which are traditionally low in September because of erratic summer buying habits; we also enhance our Rep's ability to gain distribution on V.S.'s by including the Marlboro offer.

B & H Lights Box

Wherever practical, this brand has been included in our V.S. Ultra Sell-in. If not, it has been mentioned and separate appointments have been scheduled to introduce this brand. For the most part, our wholesalers have already accepted it.

2043944912

PHILLIP MORRIS AND INDUSTRY SALES

Industry sales for the first six months throughout our trading areas is off -3%. This information is based on the Section "Cigarette Industry Share of Market Report". As noted in my last report, the direct accounts didn't appear to load as heavily as in the past over the price increase. Trade shipments for June were up 26%, but RJR represented 46% of the additional shipments. They actually shipped 54% above their prior three month average as compared to our +21% over the prior three month average. Our business in July was up 8.7% and our year to date shows a 2.2% gain. Our market share of units sold for the first six months is now at 40.35%, up 1.65%.

In the Price Value category we show virtually no growth, but we do have a 15.8% share of that business. With more support, such as our current 2 for 1 product on Cambridge and additional higher value on carton couponing, we would be in a better position to generate more business in this category.

STATE TAX AND REGULATORY DEVELOPMENTS

The N.Y. State Bill which would have increased the price sub-jobbers and vendors pay for cigarettes has not been signed by the Governor. The Bill was sent back to the Assembly, but it can be called back anytime. The Non-Stamping Cigarette & Candy Wholesale Association is fighting hard to keep this Bill from passing.

We are continuing our follow-up to get appointments with our targeted Congressman and Senator regarding the Federal Excise tax. If nothing else, their offices know we haven't forgotten about it!

2043944913

II. MAJOR COMPETITIVE DEVELOPMENTSAMERICAN TOBACCO

They are currently promoting Pall Mall Red Filters with Buy One Get One Free product on 20 and 40 unit displays. In parts of the Section this product is selling while in other parts it is just sitting on the displays. Their Sales Rep's are wrapping this two for one product themselves. They have no supplemental manpower assistance. They are also placing \$2.00 coupons on cartons of this brand as well as all Lucky Filters packings. The \$2.00 coupons do create some movement.

BROWN & WILLIAMSON

Capri is being introduced throughout the Section. The allowances and sequential program involved with this intro has been forwarded to both Region and NY headquarters. Wholesale acceptance has been excellent and the chains are considering the acceptance of this product. So far we haven't seen heavy impact in our retail territories, but the design and quality of their P.O.S. is definitely eye catching.

LIGGETT & MYERS

They are promoting L & M Deluxe Flavor Lts in 25 carton floor bin displays with \$1.50 off coupons. Movement is slow at best.

LORILLARD

Promoting True with forty unit two-pack lighter promotions. Since the True package change True Regular Kings and 100's appear to be selling while the menthols are showing little movement. They are also placing \$1.00 and \$2.00 coupons on most of their self-service product. These coupons are generating additional sales. In the resort areas they've continued to be active by placing Buy One Get One Free promotions on Newport Regulars and Newport Lights. Needless to say, Newport is showing excellent movement.

RJR/NABISCO

Is introducing Salem Lights 100's Custom Case to the direct customers throughout the Section. The brand is scheduled for an August 28, 1987 rollout. The wholesale offer is \$22.00 off per allocated case of product. Direct customers will also receive 14 days of additional terms. We have no information at this time on the retail introduction.

RJR's new quality in store mission approach which has their Rep's making less but more complete calls is paying dividends. They are targeting the calls we currently dominate and are establishing a new presence for themselves. Overheads, which we currently have a 14.8% call penetration are their primary target. In one Division alone last month, we lost nine placements. They are paying bonuses to place their units and are attaching displays to their overheads so they have a monthly payment assigned to them. We are, of course, combating their efforts and somewhat holding our own; however, we are very vulnerable especially when you consider that our introductions and chain fixturing obligations have all but tied-up our Rep's and Retail Merchandisers.

Please note: We have witnessed a decided reduction in their couponing of Doral. Throughout the section we no longer see 25¢ off coupons on packs. In the New York and Northern New Jersey portions of the Section they are using \$1.00 off coupons but they are not on every carton. In Southern New Jersey, we've begun to see .50¢ off coupons on cartons.

2043944915

III. TRADE CLASSESWHOLESALE DISTRIBUTORS

This past month we completed our ADA and DIP Programs on Cambridge. Other than these, there is nothing unusual happening within this trade class. I would like to share with you some figures we received from a wholesale house (Heritage) in Southern New Jersey on their 1986 Return Goods which are indicative of what we see throughout our Section.

Total Returns 23997 Cartons

	1986 Purchases		1986 Returns		Returns vs Purchases
	Cartons	Share	Cartons	Share	
American Brands	47,750	6.52%	42	0.18%	0.09%
Brown & Williamson	71,640	9.78%	5,026	20.94%	7.02%
Liggett & Myers	15,240	2.08%	4,111	17.13%	26.98%
Lorillard	120,090	16.39%	3,295	13.73%	2.74%
Philip Morris	284,700	38.86%	2,062	8.59%	0.72%
R.J. Reynolds	177,958	24.29%	9,427	39.28%	5.30%
Federated	15,180	2.07%	34	0.14%	0.22%
	732,558	100%	23,997	100%	3.28%

You will note the very high carton and share of return totals RJR had for 1986. I would like to know what their true share of business would be if returns were deducted and their couponing was in line with the remainder of the industry?

WHOLESALE GROCERS

Wakefern has hired Supermarket General's Merchandising Manager and inside sources have advised us that they've also hired several of Supermarket General's high level buyers.

SUPERMARKETS

A & P - We've placed three System 2000 fixtures as scheduled in their two new Sav-A-Center stores and their Wayne, NJ store. A final decision to convert to System 2000 racks is still pending however, and we hope to have a meeting in September with George Graham, their Merchandising V.P. to finalize the conversion. The Metro Group has also not acted on accepting our Value Centers for Royale and Cambridge.

2043944916

Superfresh - We are in the process of representing our Value Centers to them. SAM Mike Grande is following up with Dave Ableman of A & P, and he is outlining a profit opportunity picture that should be hard to refuse.

Grand Union - RJR is beginning to install their flex racks and although we haven't formally signed a contract with their buyer for the Metropolitan Area Division, they have forwarded our suggested P.O.G. to all their stores in this Division as well as to their other Division Headquarters throughout the country. This P.O.G. provides us with a primary shelf (the third) as well as an average of 84 rows in the majority of their stores. Prior to this, our rows for the most part were either 56 or 68 rows depending on the size of the fixture in a store.

Our current strategy with Grand Union is to now focus on their front-end package fixturing. We are currently testing our low profile spinner in one of their stores and we've made a Profit Improvement Presentation to Mr. Muscanell supporting the service and financial benefits that Grand Union can derive by converting to spinners. It appears at this time that Mr. Muscanell is in favor of Spinners. We must now sell it up the line and convince them to go with our spinners over RJR's.

Pathmark - The attempted takeover by Dart has been very disruptive to the internal workings of this company. They are losing key people, including those we have been negotiating with over the past four years.

On August 17, 1986, I accompanied our SAM and AM to this account only to find that their Merchandising Manager (with whom we've been arranging the finalization of our spinner placements, plus the introduction of Cambridge) is no longer employed by Supermarket General. Our follow-up now is directed towards Mr. Paul Stanton, who is a Vice president and appears to be ultimately responsible for the tobacco category. We have an appointment scheduled for September 1, 1987. At this time we will conduct a business review and outline the steps Pathmark and Philip Morris have taken over the past two years to improve their cigarette sales and inventory status at store level. If this goes well, we will then present Cambridge and our FVB brand to them.

2043944917

Quick Chek - As mentioned earlier, Cambridge is still pending with this account. Their buying committee has approved the brand, and General Trading (their supplier) is filling store orders on a request basis; however, their president doesn't want anymore competition for their Worth brand.

Krauszers - No further word as to when they will make a decision on Cambridge. We have a follow-up presentation scheduled for September to review its status. We did however sell-in Virginia Slims Ultra Lights including shipping two for one product directly into their warehouse. This will save our Rep's countless time and eliminate the need to do massive stock swappings. We have also been notified by Phyllis Kornbluth, Manager of Merchandising Materials in our NYO that the special push/pull decal for Krauszers has been approved and will be arriving shortly at our Section office.

Heritage Dairy Stores is also accepting two for one product at their wholesale warehouse to be shipped to their stores.

CONVENIENCE GAS

Nothing new to report.

DRUG STORES

Drug Fair has accepted the Marlboro Shopping Baskets for all their stores.

LIQUOR STORES

Nothing new to report.

MASS MERCHANDISERS

Nothing new to report.

2043944918

IV. SSM KEY ACCOUNT CONTACTS

On July 30, 1987, I accompanied S.A.M. Grande on his presentation of Virginia Slims Ultra Lights to A & P. Unfortunately, after a two hour wait, the buyer was unable to see us. We did present our proposal to her assistant and we did reschedule a follow-up appointment with her.

On August 14, 1987, I joined DM DeSarno in following-up on Jersey Coast Tobacco's credit problem with Philip Morris. This account was originally part of Paolella out of Pennsylvania. Once Paolella filed for bankruptcy the original ownership at Jersey Coast reclaimed their business as Paolella reneged on their buyout terms. The problem is that they claim P.M. is the only account holding them to a credit restriction and we also have not resolved what to do with their 1985 IDP check. I've talked to Karl Zoldan of our credit department. He is aware of the situation at Jersey Coast and will be following up accordingly in an effort to satisfy this customer.

On August 17, 1987, I joined S.A.M. Fran Munoz and A.M. Zenobi in an attempt to present a profit improvement presentation to Pathmark along with a follow-up presentation on Cambridge. Unfortunately upon arriving at Pathmark's headquarters we were greeted with the news that their merchandising manager, with whom we had our appointment, had resigned. We found the department to be in a state of confusion. We gathered what information we could at their headquarters and are in the process of preparing for a business review to educate their new personnel. It's scheduled for 10:30am on September 1, 1987.

2043944919

V. MERCHANDISINGCARTON MERCHANDISINGPlan A

As of August 1, 1987, our Plan A penetration in Independent Accounts throughout the Section is 89%. In accounts doing over 500 ctns per week we have a 94.4% (202 of 214) penetration. Our totals for all self-service calls doing over 300 cartons per week within the Section geography is 91.1% (999 of 1097 calls) with a 96.1% penetration for all those accounts doing over 500 ctns per week (489 of 509 calls). Our total row average is up to 77.4 rows for all calls within the Section. We are averaging 86.2 rows in those accounts doing over 500 cartons per week. Overall, we occupy 37.2% of the rows in outlets where we have a Plan A contract. We also cover 93.3% of the self service volume with our Plan A contract. As for the Section's chain responsibilities, we have in the past year upgraded virtually all our plans with the exception of Jamesway and are making further row gains as more and more of our chain supermarkets convert to bigger departments. With our ability to monitor row gaps and the new Space Trek program we will see continued row growth.

Plan A-1

In July we placed 21 of our Marlboro Sport Gear A-1's. This is a popular incentive which has been accepted by both chains and independents alike. With our new approach on A-1's we should use our full allocations by the end of September.

Plan AV

We presently have 291 under contract. As we re-sign our Plan A's many of these contracts will be absorbed by the Plan A.

PACK/COUNTER MERCHANDISINGPlan B/M's, R, and AOM's

Our penetration in all accounts on permanent package merchandising is at 34.5% (3006 of 8713 cases in the Section). This is down 0.2% over the past month. This same 0.2% total was our gain during the previous reporting period. We are continuing to test for opportunities wherever possible. We could use a more flexible modular counter unit if we intend to appreciably improve our penetration with these displays.

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We are up to 1591 locations with these displays, up 30 over the previous month. Now that our Divisions have adequate supplies of these units, we can expect further account penetration. I would recommend again that we consider improving the grade of plastic on this display as it doesn't hold up to the weight of the cigarette packs. This display can also be modified to be a modular display, and as such, we could add more trays. This has become necessary because of all the value packings we have at this time.

Marlboro 2 Pack Lighter Promotion

During July we placed another 650 of these displays raising our total to 1923 and our usage to over 90%.

B & H Inner City Promotion

During July we placed 338 of the 2 for 1 displays and will have used all the B & H 2 for 1 product by the end of August. Due to our efforts on Cambridge much of the B & H Lighter promotion following the 2 for 1's has not been used. These will be placed during September.

Cambridge Two for One's

We placed 1728 of these displays which would indicate over 90% usage. Our field reports indicate that we used all this product. We also created additional two for one's with the two for one tape to help move additional product in those accounts that had surplus inventory.

Vending

Nothing new to report.

PHILIP MORRIS FIXTURING

Carton Fixtures

As of August 1, 1987, we have 327 fixtures on location which is an increase of 14 over the previous month.

Overheads

As previously mentioned, we have 1271 locations with overheads in the Section representing a 14.8% account penetration. We are fighting to hold our own against RJR but these numbers do represent an increase of 38 locations with our overheads.

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Without counting spinners (for some reason they've been removed from our Retail Account Summary report), we have 362 stores with PM package fixturing. Spinners are in over 100 supermarkets throughout the Section. If you combine these spinners with other package fixturing and the overheads the Section has a 20% account penetration on package fixtures.

PERMANENT P.O.S.

Electronic Message Centers

We have made presentations to most of our chain supermarket accounts plus several large independent markets and have received acceptance for 10 placements plus several others that are pending.

Semi-Permanent P.O.S.

Nothing new to report.

Temporary P.O.S.

Nothing new to report.

2043944922

VI. SECTION ACTIVITIESRETAIL ACTIVITIES

Our retail coverage for July was down the street. During the month we averaged 4 vacancies per week plus lost over 15% of our available time to vacations. We did however contact 95% of all our calls, 8260. We made full use of our samples; virtually used all our \$2.00 on carton coupons for Cambridge (placed 15619); used our full allocation of P.O.S.; had 5460 instances of sales with over 85% being cash, jobber, or book orders (these accounted for 66,497 of the 71,095 ctns sold); and placed a total of 3438 set/sell displays in addition to the 2949 special promotion displays (2 for 1's, A-1's, 30 ctn displays, lighter displays, etc). During the month we had a 10.7 call rate with a maxi rate of 11.3. In all, our Rep's opened 11,096 doors in July.

In August they have been following up on the Cambridge introduction, setting our Marlboro A-1's, placing the B & H 2 for 1's, and pre-booking the Virginia Slims Ultra Lights and the 10¢ off per ctn Marlboro special promotion.

RETAIL MERCHANDISERS

During July one of our RM's was promoted and we replaced him with a retail Sales Rep. In all, they made 335 contacts. Our RM's are helping place some of our merchandising promotions and performing maintenance on our existing fixturing as well as making new installations.

MANAGEMENT ACTIVITIES

SAM's - Continue to familiarize themselves with their accounts and are following-up selling our new brands and fixturing.

AM's - Primarily selling new brands as well as our carton and package fixturing. They are also presenting our Electronic Message Center to all their supermarket chains, and following-up to insure their wholesalers deliver all our Virginia Slims and Marlboro pre-books.

DM's - Are hiring to fill their vacancies, following-up on our Product Promotion Plan, focusing on Plan A's, and working with their Rep's to help sell our E.M.C.'s in their larger independent supermarkets.

Supervisors - Are assisting their DM's in filling vacancies, upgrading our warehousing facilities, and getting involved with our E.M.C. and Plan A presentations.

2043944923

VII. SALES SERVICESSYSTEMS

Our Planning Desk, with the assistance of Tom Bonomo, is up and working.

FLEET

Nothing new to report.

OFFICE ADMINISTRATION

We've received our new office furniture. In September I am going to have to spend time in the office to restructure our administrative responsibilities. Our MPA and staffing have done an admirable job, but the volume we are handling is not allowing us to fine tune and maintain the quality records we are normally accustomed to having as a Section.

FIELD WAREHOUSES

Effective September 1, 1987, we will have new facilities for our 01 Divison. This was sorely in need of upgrading because of the financial status of the property's owner. We were concerned about being closed out of our space.

2043944924

VIII. SALES DEVELOPMENTS

Just a note on the Small SAM Seminar. This session was very stimulating and allowed our SAM's and I to really focus on selling and acquainting ourselves with the new Profit Improvement Presentation sales tool.

IX. MEDIA DEVELOPMENT

Nothing to report.

X. ASSOCIATIONS/CONVENTION/TRADE SHOWS

Nothing to report.

XI. MISCELLANEOUS COMMENTS

I would just like to make mention that while we are more than happy to demonstrate what we in the P.M. U.S.A. Sales Force do to promote our products, our demonstrations have an impact on our Sales Reps's call rate. The past few months we've entertained large numbers of guests from all over the world; many of whom require interpreters. This has resulted in our Rep's averaging under five calls on the days they are accompanied by a guest.

2043944925

REGION 2

2043944926

I MARKETING CONDITIONS

PHILIP MORRIS BRANDS

CAMBRIDGE (full flavor) - the following 4 major chains remain holdouts, Handy Markets (69 stores), WaWa (368 stores), Acme Markets (298 stores) and Rite Aid (1,400 stores). Follow-ups being made. 17.6% of our total Cambridge sales volume was produced by Cambridge Full Flavor y-t-d and for the month of July it produced 27.9% of the total Cambridge sales.

VIRGINIA SLIMS ULTRA LIGHTS - no major holdouts to date. Initial management sell-in running very smoothly.

Retail pre-booking also very successful, approximately 50% of all independents have accepted the brand already.

B & H LIGHTS BOX - all direct wholesalers (tobacco distributors and wholesale grocers) have accepted on the spot with no objections. All initial presentations to chains have not been made yet.

PHILIP MORRIS SALES

Our worst sales volume performer year-to-date is Players 25's, volume is down 32.6% year-to-date. Chain accounts are starting to look closer at its poor sales performance and we may start seeing distribution of Players 25's being discontinued (especially in pack outlets).

A cents off pack promotion is needed to hold on to our distribution at retail.

Overall sales volume year-to-date is up 2.5% or 489 million units.

II COMPETITIVE ACTIVITIES

AMERICAN - Introducing Pall Mall Filters king size and 100's. Each carton has a \$2.00 off coupon which was attached at the factory. Sales reps are paying retailers \$4.00 gratis on a minimum 4 carton purchase. Sales movement fair. Sales not hurting our sales movement.

Malibu - retail intro. will include \$3.00 on carton coupons and 30¢ on pack coupons. No other information available at this time.

BROWN & WILLIAMSON - Introducing Capri 100's regular and

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menthol - allowances \$35.00 case off quantities shipped between 8/4/87 and 9/18/87. 3 1/4% discount during introductory period 30 days. Handling additional \$2.00 case for BlG1F, plus 5¢ per deal.

LIGGETT & MYERS

\$2.00 on carton coupons on Lark, L&M, Eve and Chesterfield, the coupon expires 3/31/88. This promotion is not having an impact on our brands.

LORILLARD - Lorillard is continuing to support the Newport family, king, 100's and 25's by using a free lighter with 2 packs purchased promotion. The display holds 3 cartons and pays \$2.00. True and Kent are being sold in (45 cartons sell-in) with \$2.00 off coupons, the retailer is offered 25¢ off on each carton purchased by them. To promote Newport 25's, they have a buy 1 get 1 free promotion using live product as the complimentary pack to give a false sense of increased sales of Newport 25's in the Philadelphia market, thus allowing them to claim Newport 25's as the number one selling full priced 25 in the Philadelphia market.

R. J. REYNOLDS

RJR continues heavy \$2.00 on carton couponing on Winston, Salem and Vantage. Sales movement excellent. The product booked into high volume accounts for this promotion has affected our Marlboro inventories in some accounts. We have corrected all inventory problems with Marlboro.

Ktron Corp., Mantua, N.J. will manufacture RJR's weight sensitive carton fixtures.

GENERICS

Nothing new to report.

III TRADE CLASSES

TOBACCO DISTRIBUTORS

Delaware County Tobacco has moved to a new location in Exton, Pa., all necessary contacts and forms completed.

WHOLESALE GROCERS

Nothing new to report.

2043944928

SUPERMARKETS

Laneco is still considering our System 2000. RJR has already replaced some older fixtures in some stores to combat our 2000.

Clemens is still considering our System 2000 for its stores. We have received authorization to place our Electronic Message Center at their headquarters store as a test.

U-Save Supermarkets (12 stores) - signed new Plan A. We gained 456 additional rows or 38 more per store for an average of 98 rows per store.

CONVENIENCE/GAS

Turkey Hill (182 stores) - B-2 displays upgraded to M-3 or B-4's.

MASS MERCHANDISERS

Clover (20 self-service stores) decision pending to use our System 2000. New plan A signed, increased rows by 362 for an average of 82 rows per store.

DRUG

Nothing new to report.

VENDING

Nothing new to report.

IV KEY ACCOUNT CONTACTS

Accompanied S.A.M. Stan Tucker to Acme Markets. 2nd quarter invoicing and presented Virginia Slims Ultra Lights. Decision of acceptance will be made August 28th.

Acme Markets will be viewing RJR's new weight sensitive carton fixture on October 16th. Hopefully, we will have ours to show Acme prior to this date. Les Olsen and George Moreo notified.

2043944929

V MERCHANDISING PROGRAMSPLAN A

Resigns and/or new signs are coming along very well. 99 resigns and 4 new signs have been made and we have gained 2,027 additional rows or 15 additional rows per signing.

PLAN AM

So far 11 independents have been signed for a total of 224 rows. We could benefit more if the volume category was raised on our Plan AM contract by simply paying \$2.00 per row in stores selling 300-499 CPW and \$4.00 per row in 500+ CPW stores. This change would improve inventory depths in alot of presently non-self service accounts.

PLAN AV

Nothing new to report.

PLAN AL

28 accounts resigned. A total of 448 additional rows gained.

PLAN A-1

Nothing to report.

PERMANENT COUNTER DISPLAYSPLAN B/M

41.7% of our total B displays are maxi-units, which is a 12.1% increase over last month. 42.9% of our B's are in prime locations on the selling counter, which is an increase of 3.1% over last month. 48.8 of our displays have add-ons, this represents an increase of 4.2% over last month.

Our 1987 objectives are to have 33% of our total Plan B locations displaying maxi units, 50% in prime locations and 45% with add-ons.

PLAN R

Three independents signed this period. One chain (184 stores, Acme) and 31 independents are under contract.

2043944930

VENDING PROGRAM

	ACCOUNTS		NEW PLACEMENTS	
	MONTH	YTD	MONTH	YTD
RIDE-WITHS	0	1	-	27
RDA's	1	3	9	570
MCVCC	0	4	30	40
CONVERTOOL	0	5	-	100

NEW PLACEMENTS Y-T-D 737

PHILIP MORRIS FIXTURES

Carton Fixtures - Acme program, currently there are 187 Acme Markets using our carton fixtures. 5 additional fixtures were installed. Carton fixtures on location in Section 21's workload are 254. This is an increase of 64 fixtures on location or a 33.7% increase for 1987. Another objective reached!

Package Fixtures - Acme stores have 10 PM pack fixtures currently installed. 5 fixtures placed this month.

19.1% of all accounts are displaying a Philip Morris package fixture.

Consumer Intercept Program - 100% of the allocation consumer intercept coupons for July were used, for an average of 8 per day per Sales Rep.

VI SECTION ACTIVITIESACCOUNT COVERAGE

48% of our 52 sales territories cycled 90% plus. The section averaged 10.4 calls per day. 3 S/R's on STD and 2 vacancies.

RETAIL ACTIVITIES

. Cambridge Full Flavor retail sell-in was quite successful, our distribution is at approximately 75%. 2 for 1 and 25¢ off per pack offers were very successful in gaining trails of our new packings.

. The pre-booking of Virginia Slims Ultra Lights was also quite successful. We only pre-booked this brand in high volume accounts in order to save time for S/R's to do other activities, such as sell our new Plan A.

2043944931

MANAGEMENT ACTIVITIES

. Area Managers and Senior Account Managers efforts were directed toward sell-in Virginia Slims Ultra Lights and B&H Lights Box. Details in Marketing Conditions area of report.

SPECIAL ASSIGNMENT REP

. Ed Silcox is presently working vacant assignments in Division 01, 2 STD's.

SPECIAL PROGRAMS

. Bar night for the Marlboro Sports Car Race was conducted by SRO Kirkland and DM Duncan. Five Sales Reps worked sampling the crowd of 1,000 people. Needless to say, this bar night was very successful.

. B&H Inner-City Program - smaller volume accounts in the ethnic community never have and probably never will accept coupons, simply because they cannot afford to tie up their money. I suggest that next year we increase 2 for 1's and decrease coupon distribution by our samplers or change the coupon to a mail-in offer for a free pack instead of coupon for buy one get one free offer.

POS MATERIALS

Nothing new to report.

VII SALES SERVICES

INFORMATION SYSTEMS - nothing to report.

CARLSTADT SHIPMENTS - nothing to report.

OFFICE ADMINISTRATION - nothing to report.

NEW YORK AUDIT - nothing to report.

FLEET ADMINISTRATION - nothing to report.

VIII SALES DEVELOPMENT

Nothing to report.

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IX MEDIA

Our Walking Cowboy billboard on Rt. 95 South in Philadelphia received the Best of Philly 1987 award.

X OTHER

July 13th thru 16th - attended MPA II seminar.

July 23rd - Annual Golf Outing (Golf Digest) was very successful, a total of 30 high volume accounts attended.

July 24th - conducted Virginia Slims Ultra Lights and B&H Lights Box management meeting.

July 27th thru 31st - attended SAM seminar.

August 3rd & 4th - attended meeting conducted by Region Trainer Ranson on Customer "Trac" Systems. Supervisors and SAM's attended.

August 6th - attended meeting with Sam Telegadis on future S.P.A.C.E. output documents for Section down to S/R level.

August 7th & 8th - attended P.A.M.M.A. convention.

August 17th thru 20th - attended Region S.A.M. seminar.

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MONTHLY OPERATIONS REPORTU.S.A. FIELD SALESI. MARKETING CONDITIONS

Cambridge Full Flavor

=====

The overall results of the Cambridge Full Flavor management sell-in was fair. While all wholesalers accepted the brand, none of our major wholesalers bought or exceeded their allocation. Some small wholesalers in the rural areas where generics have a double digit market share did well, but there was not a great deal of volume involved. Chain acceptance has been fair with both 7-11 and Giant Food not accepting the brand.

At retail, the 2 for 1 promotion and coupon programs proved effective and were instrumental in helping to gain distribution. However, distribution is only 31%. The transfer of 2 for 1's to areas with the greatest potential for usage, and the locally arranged 2 for 1 shipments from select distributors to 2 Convenience chains also proved effective. The latter alleviated an exchange problem. All 2 for 1 product has been moved out of our designated distributors.

Excellent sales and acceptance were achieved in our 06 (Winchester, Virginia) division which includes the economically distressed areas of the Section. All 2 for 1 product was utilized with single packs and cartons being purchased as follow-up sales.

Couponing continues to be a major factor in movement of value brands along with AG/AV fixturing. Proper merchandising, in areas where generics sell well, moves this product. Pricing is a key factor and each display must advertise the generic price up front to be effective.

Virginia Slims Ultra Lights

=====

Excellent acceptance is being gained with this brand with direct and indirect accounts. Having a 3.19 S-O-M with our other Virginia Slims packings has helped in this acceptance.

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Philip Morris Sales

=====

July's sales figures show no effect of the extra orders from June. For the month we showed a +10.2 increase and Y-T-D the Section's is +5.4%.

All major packings were on the plus side for the month and Y-T-D only the Benson & Hedges family is on the minus side (-1.5%). It is conceivable that the introduction of Benson & Hedges Lights Box packing may help reverse this decline.

What is surprising in reviewing these sales figures is the Parliament family. All packings showed healthy increases for the month and Y-T-D we show an infinitesimal increase of +0.2%.

Industry

=====

Smoking restrictions in Baltimore County stores that sell food products went into effect 7/15/87. All stores must have posted in front windows or doors the new law. Health department officials have been inspecting stores to insure that signs are posted and the law is being enforced. The law has decreased switch selling effectiveness of Reps calling on Baltimore County stores, i.e. unable to have consumers sample the taste of product in stores. This has brought about an increased use of coupon packets.

II. COMPETITIVE ACTIVITY

American Tobacco Company

=====

- * Introducing new Pall Mall Red Filter Kings/100's at wholesale in July and retail in August. Promotional activities at retail consist of \$2.00 on-carton coupons, BlG1F and 3 dimensional P.O.S.
- * Heavy emphasis on Malibu continues with \$3.00 off carton coupons and 30¢ off per pack. Carton fixtures are popping up everywhere especially chains - \$45.00/month payment. Sales have been fair to good. Exposure excellent.
- * \$2.00 off/carton continues on the Lucky, Carlton and Tareyton family.

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Brown & Williamson

=====

- * Currently pre-booking new Capri. Reps have been successful in generating excitement among retailers with packaging design, cigarette shape and upcoming merchandising programs. Retail activities will include BlG1F, 2 packs with lighter, 2 packs with marking pen plus carton coupons, sample 20's and extensive advertising support.
- * \$2.00 off on-carton coupon, 20¢ off/pack on Barclay. Despite this promotion, sales are slow.
- * Phasing out one Military Managers job in the D.C. area due to inability to promote because of restrictions.
- * Falcon Lights BlG1F and \$2.00 off carton coupons.

Liggett & Myers

=====

- * 2 pack with lighter and 25¢ off stickers featured on Eve 120's in 20 unit display with \$2.00 payment. Account penetration limited, sales are moderate.
- * \$2.00 on-carton couponing continues on all brands with sales slow.

Lorillard

=====

- * Newport Stripes Slim 100's test market in Delaware continues to be successful. Wholesalers are extremely pleased with the exceptional movement of this new brand. Being promoted with BlG1F and \$2.00 on-carton coupons. It is too early to determine the impact on Virginia Slims.
- * Other brands being promoted with either \$1.00 or \$2.00 on-carton coupons.

R.J. Reynolds

=====

- * In some areas Doral is now being merchandised with 50¢ off on-carton coupons instead of \$1.00. Other areas feature no coupons and some \$1.00 coupons. We are unable to determine wither the rationale or strategy.

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- * In resort areas using part-time people to make placements of Winston and Salem displays featuring 75¢ off on 2 pack purchases.
- * Using outside agency samplers in the Baltimore-Washington area distributing coupon packets on all brands. Packets contain \$2.50 off carton store coupon and mail-in offer for six \$1.00 carton coupons.
- * Reps continue to aggressively solicit placements of new OPM's with some success in removing ours.
- * Rumor persists that More Ultra Lights will be introduced shortly.
- * Two Reps in the Baltimore Metro Division have resigned. Each Rep had approximately 6-7 years service. This division now has 3 vacancies. Rumor has it that several other reps are actively seeking new employment due to pressure from management and their intense style.

Generics

=====

- * K-Mart will be taking on Austin generics supplied by RJR. All generic priced brands are to be discontinued with the exception of Doral. Local wholesalers are rather disturbed since they were supplying GPC and making as much as 65¢/carton. Now they will only make 25¢/carton.
- * Royale has been coming into the Super Fresh outlets and some of our personnel are in need of carton rack labels. We have one problem account whereby the store manager refuses to place Royale on the generic fixture. Instead he has placed them on our space on the regular carton fixture.
- * One IGA outlet with "Rainbow" cigarettes in stock. Belongs to L&M.

III. TRADE CLASSES

Wholesale Distributors/Grocers

=====

Capital Cigar & Tobacco Company closed two of their houses - Capital Mountain, Roanoke, Virginia and Capital Jefferson, Winchester, Virginia. Both merged with their Richmond operation, Capital Whitehead. All sales personnel will be retained and the warehouses will serve as depots with product

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being trucked in from Capital Whitehead. The loss of Capital Jefferson will adversely effect our Section's sales figures as this account averages 375 cases of our product per week. Section 24 will gain these units.

We continue to monitor out-of-stocks of the chains serviced by Capital Cigar & Tobacco Company. Improvement on this situation is by no means solved and follow-up contacts will continue at both retail and wholesale.

Two small wholesalers have made it known that they are for sale - Schirano Candy & Tobacco Company, Baltimore, Maryland and Burch & Wise, Mechanicsville, Maryland. F.A. Davis has expressed some interest in the former and G.W. Cochran, the latter.

B. Green distributors are close to finalizing the sale of their business to a Canadian Company, owners of the O'Keefe Brewery.

Supermarkets

=====

Giant Food is testing a 7 shelf RJR rack in one store. The majority of the extra space will supposedly be used to merchandise value/generic brands. In this test store our rows have been increased from 57 to 70. If and when they decide to go with this fixture, we expect to gain distribution on all packings of Cambridge Lights and Full Flavor.

Safeway is testing a vending type carton machine. Just installed, therefore there is no reading available. Outlet currently sells 600 cartons/week but has high pilferage. Early feedback by our Sales Rep indicates many dissatisfied consumers.

Convenience Stores

=====

Quik Shop (12) has accepted our OPM for all locations. They have been ordered with customized logos for the chain.

Recent survey initiated by Area Manager Dick Ginck regarding excess inventories and high return of unsaleables at 7-11 outlets, resulted in Capital Division of Southland eliminating many slow moving brands. Our loss will be the 4 packings of Players Box.

Old stock still continues to be a problem in the 7-11's. We are constantly picking up old stock due to poor or no rotation in the merchandisers. Fixtures are locked with no

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key, and sales from the fixture are discouraged by store personnel. Fixture must be full to pass 7-11 management inspection and that is all store managers are concerned about. They don't care about non-compliance.

Plan B's (M's) seem to be remaining in the designated space in 7-11's. The removal of RJR fixture was a big help in gaining counter space.

Drugs

=====

Peoples Drug has set-up a prototype non-self service in-line merchandising of cartons. Product is only visible at the point of purchase (directly behind counter) and cannot be considered as restricted self-service. In conjunction with Dennis Lowry of Capital Cigar & Tobacco Company, we will present alternative carton/pack merchandising ideas/suggestions. New CEO is from their corporate offices of IMASCO, and reports that cigarettes are 12-14% of their gross in that chain. It is his desire to increase Peoples at or near those figures.

Drug Fair/Rite Aid has forwarded no communications regarding the status of M-4 displays since the acquisition.

Mass Merchandisers

=====

We have received a new P-O-G for Ames from our local distributors and even though we have not been notified of these changes by our own personnel in Section 12, we are going ahead with the relabeling of the fixture. We increased our rows from 36 to 54.

Gas Stations

=====

Arrangements have been made for a System 2000 test in a new store of the Carl King chain. The test is scheduled to begin on or about September 20th.

Returned Goods Salvage Program

=====

During this reporting period we were able to salvage 16.9% of all cartons returned. It would be nice to think that we have reversed the trend of our returns, because we showed a -18.8% for July. However, Y-T-D we are still on the plus side (+10.3%).

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IV. KEY ACCOUNT CONTACTS

Capital Cigar and Tobacco Company - Met with President,
Dennis Lowry to discuss:

D.P.P.

CustomerTrak

Marketing Conditions

Centering on opportunities in both drug chain and supermar-
kets, we agreed that a mutual sharing of information would
benefit both of us. Dennis provided me with exact volume
data per chain which subsequently changes the posture of
D.P.P. The net result is a closer working relationship with
Capital thus enhancing our chances of capitalizing on
various opportunities.

Discussion on marketing conditions centered around the
O.O.S. situation as clearly defined by a month long survey.
My points were well taken and I was assured that action
would be taken.

V. MERCHANDISING PROGRAMS

Carton Merchandising Programs

=====

Plan A

Reps are currently re-signing and upgrading contracts.
Activities to date have only been minimal due to the intro-
duction of Cambridge Full Flavor. To date, 10% of indepen-
dent Plan A's have been resigned with 947 additional rows
gained. Also, 11 new plan A's have been signed resulting in
another 756 rows.

Compliance this period was 93%.

Plan AG & AV

Reps continue to seek opportunities and presentations are
on-going. The new AV contract will aid us in broadening our
account penetration of Philip Morris Value Centers. While
our Y-T-D results are moderate, this is an area where we are
behind our competitors in placement in chain accounts.
Sales and inventory increase in each account where our
fixtures are present.

Plan A-1

Retail response to the Marlboro Sports Bag promotion has

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been very positive to date. We anticipate 100% usage of display and incentive allocations. The added flexibility of selling down-the-street without a contract is a welcome change, but the limited number of displays allocated will limit the number of placements in non-contracted accounts. Therefore, activity on behalf of this promotion in non-contracted A-1 accounts will be minimal.

Compact/Impact

Currently, we have 56 accounts under contract. All are in the process of being converted to either A or AL. This change will increase our actual average rows. In-line merchandising concept is fading with innovations and a variety of carton fixturing that is now available.

Counter Display Programs

=====

Plan B/Maxi's

Reps continue to improve counter locations with major improvements noticed in 7-11. Compliance levels remain high in all accounts.

Feedback from our personnel is that the Maxi's are both too large and too time consuming to change each cycle. Perhaps quarterly changing would help in increasing Sales Rep productivity.

Penetration currently 31%.

Plans BV/BG

BG's continue to show some gradual growth with 39 more placements this period for a total of 1305, however it is conceivable that this growth will not continue due to increased placements of B/M with add-on modules.

Overall compliance of both BG/BV has been very good.

Plan R

Qualified fixtures on location are 45 with 94% compliance this period.

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Vending

For the 2nd quarter the number of machines, locations and the number of vendors remain the same as the first quarter. Prior to this we have been experiencing a decline in the number of vendors from quarter to quarter.

Service America, which is selling off many of its operations so as to pay off its current debt, is still looking for a buyer for their vending business.

Special Merchandising Programs
=====

Cambridge Full Flavor 2 for 1 retail response and acceptance of this promotion was good. As a result, we were successful in utilizing 100% of our allocation. Many inner-city retailers were disappointed that menthol packings were not available in this new brand introduction.

PHILIP MORRIS Fixtures
=====Overheads

Total placements increased from 694 to 726. Seven were lost this period with five being replaced by RJR's new OPM. One was destroyed by fire and one was lost because of not having a permit. This loss was one that we were not aware that a permit was needed. All lost, with the exception of the one destroyed by fire, were salvaged and are usable.

Carton Fixtures

Accounts with at least one fixture now totals 238. This is an increase of 5 since the last reporting period. Reps have been successful in gaining acceptance of System 2000. Currently, 11 high volume outlets are scheduled for these units.

VI. SECTION ACTIVITIESAccount Coverage
=====

Priority calls are being contacted according to schedule with quality of in-store mission showing on-going

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improvement. Reps are closely following weekly planners to insure call rate does not drop below 10.0.

Special Programs

=====

B&H Inner-City Program

2 for 1's have been well received. We utilized 66% of 2 for 1 display allocation during the 7th cycle and anticipate achieving a 100% usage by the end of the 8th cycle. Retailers have been receptive to POS items and impressed with imagery, design and quality of same. Retailers were exceptionally receptive to the B&H digital clock which made it very easy to gain placements. B&H sampling program likewise is going well and we expect to achieve 100% usage of sample allocation.

Marlboro Sampling Program

Program continues to be effective in broadening exposure and trial of Marlboro. All elements of the program are being carried out as per plans and we also anticipate full usage of all samplers.

Management Activities

=====

P.O.S. Items

=====

Temporary

Price stickers were utilized on all P.O.S and many retailers were impressed with the professional look the price stickers gave to the P.O.S. items. This has helped the retention time of our placements.

Permanent

We are finding it easy to gain acceptance of the Marlboro Multi-Brand Illuminated Pricer primarily due to the illumination feature of this piece.

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Material Production
=====Overproduced

<u>Item</u>	<u>Percent</u>
Posters, Cards, Set/Sells	50%

Underproduced

<u>Item</u>	<u>Percent</u>
2 for 1 Displays	30%

VII. SALES SERVICESInformation Services
=====

Section Office received its Planning Desk and with the appointment of our SAM, it has been put to good use.

P.O.S. Facilities
=====

We are beginning to solve some early problems we had at our new USCO warehouse. These include allowing our people to drive into the facility and opening the warehouse at 8:00 AM instead of 8:30 AM. John Woods was a big help in our getting these changes made.

Fleet
=====

Alarms continue to be a problem. Some alarms have caused electrical shortages and had to be disconnected. In some instances, the alarm company was not able to determine the cause of the problem.

Office Administration
=====

The move to our new office was completed with no problems. All high-tech equipment is hooked-up and in good working order. We are awaiting arrival of another work station for the third secretary we will be hiring.

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With the help of Bill Dorr, Sales Administration, we have replaced our Canon copy machine.

VIII. SALES DEVELOPMENT

DM's have been working with Sales Reps in areas of upgrading Plan A's. They are setting objectives with high volume outlets where row gaps are in double digits.

Region Trainer has scheduled a 2 or 3 day session with Supervisors on usage of the Planning Desk.

X. ASSOCIATIONS/CONVENTIONS/MEETINGS

July 7-10, 1987 - SSS Lenny Carpenter attended an AM's meeting in Atlanta, Georgia.

July 8, 1987 - Met with Dennis Miller and Barry O'Brien of Sales Planning Department to discuss CustomerTrak data for Capital Cigar and Tobacco Company and Peoples Drug.

July 12-16, 1987 - MPA Fred Swartz and I attended MPA Knowledge II Seminar in Richmond.

July 21, 1987 - Management meeting in D.C. to discuss the Virginia Slims Ultra Light and Benson & Hedges Box introduction.

July 26-31, 1987 - MPA Fred Swartz and SAM Rick Bucciarelli attended Consultative Selling Workshop in Aspen, Colorado.

July 23, 1987 - Participated in customer golf outing in Hershey, Pennsylvania.

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I. P.M. BRANDSTEST

BLUES - The additional lighter promotions supplied will be utilized by the end of the August cycle. We have targeted them in pack outlets where the brand has demonstrated strength. We have also been advised that we will receive additional sunglass displays for 19 territories. These will be placed during the September cycle. To stimulate movement in carton outlets, a media delivered \$2.00 off coupon could help move out excess product left from the cap mail-in, and also the backpack promotion. Additionally, a 2 for 1 promotion to target inner city outlets would be welcomed. Retailers have expressed concern that we have abandoned the brand even though incentive promotions have been re-run.

Section 25 has coordinated a 2 for 1 promotion with the 169 EMRO stations to maintain distribution. EMRO accepted the brand too late to participate in these promotions originally. Since they account for 9% of the volume in the Cleveland/Akron market, it is important that we promote in the account.

Movement in relation to the target audience for the brand, while slow, indicates a base on which I feel we can build overtime. If we can be convinced that the product has found a niche, then consideration to promote it in both the Toledo and Detroit inner-city areas should be given.

FULL MARGIN

Virginia Slims UL - To date, at the independent level we have pre-booked 30,028 cartons of VS UL's. Acceptance at all levels has been excellent for both the product and the related promotions. We received many favorable comments on the trade gift due to the quality and usefulness of the item. The package design did not prove to be a selling point for the product.

B&H Lts. Box - At the distributor level, the B&H was presented simultaneously with Virginia Slims UL. Acceptance has been excellent with no refusals, to date. We did receive some negative comments regarding the camera (Trade gift) because the quality was low and in nearly all cases, the buyer already has a high quality 35mm camera.

B&H Pack Change - B&H Full Flavor (Gold) has begun to show up at retail in the new package. All on-carton incentives have been received and will be utilized per guidelines to insure sell-through of the old package.

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PRICE VALUE

Cambridge - The latest 4-quarter average gives Cambridge a 1.06 share in the Section. This compares to a .90 in Cleveland/Akron and a 1.28 in Pittsburgh. The Cleveland/Akron figures are distorted due to the high level of transshipments, especially through Bosart. Initial inventory problems due to the media coupon on the full-flavor packings have been corrected and our in-house couponing efforts are now consistent for all major accounts in the Cleveland/Akron and Toledo Markets. We should begin to realize strong results from this activity now in view of RJR's reduction to 50¢ off coupons in some areas. Our inventory of on-carton coupons was thoroughly reviewed and found to be in line with our needs.

Players 25's - In-house couponing should help in the Cleveland/Akron and Toledo Markets, however, the brand continues to be in jeopardy in many accounts. Due to movement, 85's were dropped at Seaway Foodtown to accept VS UL.

II. COMPETITIVE ACTIVITY

BRAND

- Magna has excellent inventory and distribution levels in the test areas. Movement is reported and verified to be very slow. There is no outdoor support in the Pittsburgh Market. In Akron, a #35 level showing is being maintained. This is based on actual information from Patrick Media.
- Doral on-carton couponing has been reduced to 50¢ off in all areas of the Section. It is not clear whether this is a permanent change or just a special program to measure results. We will continue to investigate and intensify our efforts where possible.
- RJR is currently using 2.00 off coupons in large quantities on all major brands.

MERCHANDISING

- L&M - new carton contract raises the payment for 10 rows to \$30 while all other row levels remain the same. Hard copy will be forwarded as soon as obtained.
- RJR - new overhead receiving complaints due to adjustability feature. Specifically, accounts don't like the height even when the rack is in the highest position.

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- . B&W - buying rows on value centers for Falcon. To date, they have not bought rows for Black & Whites, however.

MAJOR CUSTOMERS

RJR - selected distributors and other major accounts are being offered a trip to Winston-Salem (all expenses paid) for a 2-day factory tour/golf outing. Accounts are asked not only shirt size, but also pants size before attending.

Lorillard - Selected major accounts are being flown to Chicago (all expenses paid) for a 2-day golf outing at a resort-type club. Paul Sicialiono, Buyer (Box 3) at Country Fair is attending.

MANPOWER

- . RJR - 5 Pittsburgh area S/Rs have accepted the early retirement package. Their use of part-time people has increased in all areas with their major emphasis being on P.O.S. placements.

III. TRADE CLASSES

SUPERMARKETS

- . The six A&D Foodarama stores in the Akron/Canton area have converted to the Piggly Wiggly name. As a result, American Seaway has become their new supplier.
- . Fazio's now has 22 stores left and their future is uncertain. Rini/Rego's is preparing to remodel these with the most potential.
- . The Mahoning Sparkle Chain (11 stores) closed due to union pressure for wages. Most, if not all stores, will probably re-open as independents. Ironically, this was our only unsigned chain Plan A.

CONVENIENCE/GAS

- . American Mini Mart Services has been contracted to convert 20 independent Marathon Stations to Mini-marts. This company could represent a potential opportunity for us in terms of using our racks for the new stores. Initial contact has already been made and we will continue to follow-up.
- . All decisions at Lawsons/Dairy Mart will be made at their Conn. office after the name change takes place. We will advise as soon as this rumor can be confirmed.

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IV. KEY ACCOUNT CONTACTS

Standard Oil - Met with Chuck Kovach to reinforce our rack programs and explore a special promotion to tie-in with their new coffee program. A meeting will be arranged with General Foods and us to discuss specific needs of the account. We have made great strides, to date, with Standard Oil that includes carton racks. They will soon make a decision regarding our OHPM and it looks very favorable at this point.

Sterling Milk - Met with President Marvin Goldsmith to reinforce our position in the account. Our overhead and Plan B program are working well in the account and Marvin continues to be receptive to our ideas.

Stop N Go (Medina) - Met with Owner, Carl Abell to discuss distribution of our new products. He will accept both (VS & B&H) and participate in the promotions. AM Doreen Lagana has followed up with the details.

V. MERCHANDISING PROGRAMS

CARTON

Plan A - At the independent level we have re-signed 20% of all old A's for a net gain of 1374 rows. This equates to an increase of 12 rows per contract on average. At the chain level, all of our proposals are pending. We anticipate decisions to be finalized by the end of October. We have requested authorization to test the NSS Plan A in Marc's. This 10-store chain averages 1100 cpw and our share is very weak due to inventories. Our payment for NSS would double RJR's and gain us CMSII racks NSS.

AV - Due to our guidelines versus the printed contract, we are having difficulty explaining to accounts why we can't pay \$112 for a 7 wide fixture. The current guidelines will only allow us to pay \$64. Where this situation is applicable we will hold off signing until the Plan A is finalized and the rows can be added to the Plan A contract.

AM - At the independent level, we have signed 10 accounts, to date. We are in the process of developing a "hit list" approach to this program in order to gain the most from it. At the chain level, all accounts presented are pending.

A-1 - Response to the Marlboro Sports Gear promotion was excellent. 100% usage will be attained for the program.

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PACK

Plan B/M - Goshen Dairy (new chain - 9 stores) signed to B-3 during this period. At Gray Drug (now Rite-Aid) all PM displays have been removed.

FIXTURES

Carton - Seaway Foodtown has agreed to test our System 2000, which is a breakthrough for this account.

Pack - At Pick N Pay, SAM Paul Allan has penetrated to "Box 2" and gained a demonstration of our LP checklane pack racks. The account currently uses Beltline and realizes they are missing sales.

VI. SECTION ACTIVITIES

Combination Warehouse Project - All leases have been approved and signed and the two remaining moves will be made by the end of September. Approximately 10 (net) warehouses were closed as a result of this consolidation. Already we have seen improvements in response time and inventory control. Additionally, the pagers have helped improve efficiency as well.

POS - We continue to get excellent response to the Marlboro shopping baskets. To date, 8 accounts/286 stores have accepted. The new personalization option for C.B. signs is pending at Standard Oil. I anticipate implementation in selected areas.

Marlboro Autosports - Two Bar Nights have been coordinated in Mansfield for the Escort 200 Race. We anticipate no implementation problems. All materials were received as outlined in the program with the exception of the Cold Pit Passes.

Marlboro Summer Sampling - 100% utilization was attained for this program. We were able to capitalize on numerous opportunities for local events and activities.

VII. SALES SERVICES

Tax and Distribution - I have forwarded the form utilized by B&W to reimburse accounts the 10.8¢ difference per carton of Value 25's on hand when the Ohio Excise tax increased. RJR also reimbursed the accounts. Several accounts have questioned why we did not reimburse them. It is my recommendation that we make the appropriate payment to them. In most cases, this will only amount to \$50 or less.

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VIII. SALES DEVELOPMENT

B&H Jazz Concerts - We will have 3 Concerts in the Section. All aspects have been coordinated. We will be careful to make certain the accounts invited are interested in Jazz.

Trade Shows - We will participate in the Lawsons and Lane Drug Shows. We have gained permission from each account to sell a 10-carton promotion to Store Managers in conjunction with the B&H and V.S. intros.

Patrick Golf Outing - 75 golfers (including PM personnel) will participate on 8-27 at Pine Ridge Country Club. We were able to reduce attendance and better concentrate on higher level management from nearly all major accounts.

IX. MEDIA

Cleveland Plain Dealer - A total no smoking ban has been issued for all personnel in their buildings and shops. We were contacted by George Fedor (National Accounts Manager) for information on how to counteract the policy. We directed him to Pat Wilson who put him in touch with the proper people to advise their union.

X. OTHER

P.M. Meeting attended this period:

SAM Small Group - 8/17 - 8/20

Conventions attended this period:

OACS - 8/24 - 8/25

"24 - and a Whole Lot More" presented

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